INGWE
MUNICIPALITY

Ingwe Local Municipality
Annual Financial Statements
for the year ended 30 June 2015

# Index



**Abbreviations**

| | |
|---|---|
| GRAP | Generally Recognised Accounting Practice |
| HDF | Housing Development Fund |
| MFMA | Municipal Finance Management Act |
| MIG | Municipal Infrastructure Grant |
| FMG | Finance Management Grant |
| MSIG | Municipal Systems Improvements Grant |

# Accounting Officer 's Responsibilities and Approval

The accounting officer is required by the Municipal Finance Management Act (Act 56 of 2003), to maintain adequate accounting records and is responsible for the content and integrity of the annual financial statements and related financial information included in this report. It is the responsibility of the accounting officer to ensure that the annual financial statements fairly present the state of affairs of the municipality as at the end of the financial year and the results of its operations and cash flows for the period then ended. The external auditors are engaged to express an independent opinion on the annual financial statements and was given unrestricted access to all financial records and related data.

The annual financial statements have been prepared in accordance with Standards of Generally Recognised Accounting Practice (GRAP) including any interpretations, guidelines and directives issued by the Accounting Standards Board.

The annual financial statements are based upon appropriate accounting policies consistently applied and supported by reasonable and prudent judgements and estimates.

The accounting officer acknowledges that he is ultimately responsible for the system of internal financial control established by the municipality and place considerable importance on maintaining a strong control environment. To enable the accounting officer to meet these responsibilities, the  sets standards for internal control aimed at reducing the risk of error or deficit in a cost effective manner. The standards include the proper delegation of responsibilities within a clearly defined framework, effective accounting procedures and adequate segregation of duties to ensure an acceptable level of risk. These controls are monitored throughout the municipality and all employees are required to maintain the highest ethical standards in ensuring the municipality's business is conducted in a manner that in all reasonable circumstances is above reproach. The focus of risk management in the municipality is on identifying, assessing, managing and monitoring all known forms of risk across the municipality. While operating risk cannot be fully eliminated, the municipality endeavours to minimise it by ensuring that appropriate infrastructure, controls, systems and ethical behaviour are applied and managed within predetermined procedures and constraints.

The accounting officer is of the opinion, based on the information and explanations given by management, that the system of internal control provides reasonable assurance that the financial records may be relied on for the preparation of the annual financial statements. However, any system of internal financial control can provide only reasonable, and not absolute, assurance against material misstatement or deficit.

The annual financial statements are prepared on the basis that the municipality is a going concern and that the municipality has neither the intention nor the need to liquidate or curtail materially the scale of the municipality.

I certify that salaries , allowances and benefits of councilors , loans to councilors , if any , and payments made to councilors for the loss of office , if any, as disclosed in the notes of these annual financial statements are within the upper limits of the framework envisaged in section 219 of the Constitution , read in conjunction with the  Remuneration of Office Bearers Act  and the Minister of Local Government's determination in accordance with this Act.

The annual financial statements as set out on pages 3 to 64 have been prepared on the going concern basis,

**Mr NC Vezi**
**Municipal Manager**

## Statement of Financial Position as at 30 June 2015

| Figures in Rand | Note(s) | 2015 | 2014 |
|---|---|---|---|
| **Assets** | | | |
| **Current Assets** | | | |
| Receivables from non-exchange transactions | 2 | 930 067 | 598 199 |
| VAT receivable | 3 | 2 859 365 | 1 755 106 |
| Receivables from exchange and non -exchange transactions | 4 | 1 168 668 | 447 932 |
| Cash and cash equivalents | 5 | 57 000 209 | 52 420 265 |
| | | **61 958 309** | **55 221 502** |
| **Non-Current Assets** | | | |
| Investment property | 6 | 2 885 000 | 565 000 |
| Property, plant and equipment | 7 | 174 882 933 | 159 088 367 |
| Intangible assets | 8 | 86 212 | 178 780 |
| | | **177 854 145** | **159 832 147** |
| **Total Assets** | | **239 812 454** | **215 053 649** |
| **Liabilities** | | | |
| **Current Liabilities** | | | |
| Finance lease obligation | 9 | 66 504 | 52 152 |
| Payables from exchange transactions | 10 | 14 674 799 | 15 185 022 |
| Unspent conditional grants and receipts | 11 | 5 593 982 | 229 573 |
| | | **20 335 285** | **15 466 747** |
| **Non-Current Liabilities** | | | |
| Finance lease obligation | 9 | 420 462 | 237 956 |
| Long service awards obligation | 12 | 257 000 | 223 000 |
| Provisions | 12 | 584 500 | 384 867 |
| Retirement health care benefits | 12 | 2 315 009 | 1 804 155 |
| | | **3 576 971** | **2 649 978** |
| **Total Liabilities** | | **23 912 256** | **18 116 725** |
| **Net Assets** | | **215 900 198** | **196 936 924** |
| Reserves | | | |
| Housing development fund | 40 | 3 206 348 | 2 277 324 |
| Accumulated surplus | | 212 693 852 | 194 659 600 |
| **Total Net Assets** | | **215 900 200** | **196 936 924** |

## Statement of Financial Performance

| Figures in Rand | Note(s) | 2015 | 2014 |
|---|---|---|---|
| **Revenue** | | | |
| Service charges | 13 | 566 489 | 524 198 |
| Rental of facilities and equipment | | 280 203 | 295 553 |
| Other income | 16 | 3 055 120 | 367 314 |
| Interest received | 17 | 3 787 659 | 3 942 378 |
| Property rates | 14 | 4 936 753 | 5 193 575 |
| Property rates - penalties imposed | 14 | 164 630 | 253 195 |
| Government grants & subsidies | 15 | 100 847 258 | 88 799 014 |
| Traffic fines | 42 | 611 000 | 708 878 |
| **Total revenue** | | **114 249 112** | **100 084 105** |
| **Expenditure** | | | |
| Employee Related Costs | 18 | (28 725 035) | (25 083 150) |
| Remuneration of councillors | 19 | (6 702 586) | (6 449 504) |
| Depreciation and amortisation | 20 | (10 132 180) | (8 634 768) |
| Impairment loss | 44 | (418 800) | (425 754) |
| Finance costs | 21 | (465 538) | (402 680) |
| Debt Impairment | 43 | (1 345 922) | (1 983 333) |
| Repairs and maintenance | 45 | (4 210 116) | (4 176 105) |
| Contracted services | 22 | (1 233 497) | (1 312 827) |
| General Expenses | 23 | (28 123 533) | (25 815 012) |
| **Total expenditure** | | **(81 357 207)** | **(74 283 133)** |
| **Operating surplus** | | **32 891 905** | **25 800 972** |
| Electricity projects | 30 | (13 722 032) | - |
| Loss on disposal of property plant and equipment | | (204 403) | (199 255) |
| | | **(13 926 435)** | **(199 255)** |
| **Surplus for the year** | | **18 965 470** | **25 601 717** |

# Statement of Changes in Net Assets

| Figures in Rand | Housing development Fund | Accumulated surplus | Total net assets |
|---|---|---|---|
| **Balance at 01 July 2013** | **2 277 324** | **168 099 930** | **170 377 254** |
| Changes in net assets | | | |
| Correction of error | - | 202 670 | 202 670 |
| | - | 202 670 | 202 670 |
| Surplus for the year | - | 25 601 717 | 25 601 717 |
| Total | - | 25 804 387 | 25 804 387 |
| Prior period errors ( Note 34) | - | 10 884 367 | 10 884 367 |
| Electricity projects reversal recognised in surplus | - | (10 129 084) | (10 129 084) |
| Total changes | - | 26 559 670 | 26 559 670 |
| **Balance at 01 July 2014** | **2 277 324** | **194 659 600** | **196 936 924** |
| Changes in net assets | | | |
| Surplus for the year | - | 18 965 470 | 18 965 470 |
| Transfer to /( from) Housing development fund | 929 024 | (929 024) | - |
| Transfer of interest to HDF | - | (2 194) | (2 194) |
| Total changes | 929 024 | 18 034 252 | 18 963 276 |
| **Balance at 30 June 2015** | **3 206 348** | **212 693 852** | **215 900 200** |

Note(s)

# Cash Flow Statement

| Figures in Rand | Note(s) | 2015 | 2014 |
|---|---|---|---|
| **Cash flows from operating activities** | | | |
| **Receipts** | | | |
| Taxation and sale of goods and services | | 3 895 668 | 3 541 673 |
| Grants | | 106 061 814 | 88 799 015 |
| Interest income | | 3 787 659 | 3 942 378 |
| | | 113 745 141 | 96 283 066 |
| **Payments** | | | |
| Employee costs | | (33 822 471) | (31 471 932) |
| Suppliers | | (34 857 369) | (37 370 697) |
| Finance Costs | | (465 538) | (402 680) |
| | | (69 145 378) | (69 245 309) |
| **Net cash flows from operating activities(outflows)/inflows** | 25 | **44 599 763** | **27 037 757** |
| **Cash flows from investing activities** | | | |
| Purchase of property, plant and equipment | 7 | (39 741 567) | (48 604 900) |
| Movements in property , plant and equipment | 7 | - | 6 236 645 |
| Purchase of other intangible assets | 8 | (10 252) | - |
| **Net cash flows from investing activities** | | **(39 751 819)** | **(42 368 255)** |
| **Cash flows from financing activities** | | | |
| Finance lease payments | | (268 000) | (24 531) |
| **Net (increase)/decrease in cash and cash equivalents** | | **4 579 944** | **(15 355 029)** |
| Cash and cash equivalents at the beginning of the year | | 52 420 265 | 67 775 294 |
| **Cash and cash equivalents at the end of the year** | 5 | **57 000 209** | **52 420 265** |

# Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Statement of Financial Performance** | | | | | | |
| **Revenue** | | | | | | |
| **Revenue from exchange transactions** | | | | | | |
| Service charges | 350 000 | (150 000) | **200 000** | 566 489 | **366 489** | 49 |
| Rental of facilities and equipment | 293 000 | 55 000 | **348 000** | 280 203 | **(67 797)** | 49 |
| Interest received (trading) | 114 000 | (14 000) | **100 000** | - | **(100 000)** | 49 |
| Other income - (rollup) | 331 000 | 1 201 000 | **1 532 000** | 3 055 120 | **1 523 120** | 49 |
| Interest received - investment | 4 000 000 | - | **4 000 000** | 3 787 659 | **(212 341)** | 49 |
| **Total revenue from exchange transactions** | **5 088 000** | **1 092 000** | **6 180 000** | **7 689 471** | **1 509 471** | |
| **Revenue from non-exchange transactions** | | | | | | |
| **Taxation revenue** | | | | | | |
| Property rates | 5 500 000 | - | **5 500 000** | 4 936 753 | **(563 247)** | 49 |
| Property rates - penalties imposed | 6 000 | (6 000) | **-** | 164 630 | **164 630** | 49 |
| **Transfer revenue** | | | | | | |
| Government grants & subsidies | 70 746 000 | - | **70 746 000** | 100 847 258 | **30 101 258** | 49 |
| Fines, Penalties and Forfeits | 300 000 | - | **300 000** | 611 000 | **311 000** | 49 |
| **Total revenue from non-exchange transactions** | **76 552 000** | **(6 000)** | **76 546 000** | **106 559 641** | **30 013 641** | |
| **Total revenue** | **81 640 000** | **1 086 000** | **82 726 000** | **114 249 112** | **31 523 112** | |
| **Expenditure** | | | | | | |
| Personnel | (31 020 000) | 1 926 000 | **(29 094 000)** | (28 725 035) | **368 965** | 49 |
| Remuneration of councillors | (6 728 000) | - | **(6 728 000)** | (6 702 586) | **25 414** | 49 |
| Depreciation and amortisation | (5 875 000) | (222 000) | **(6 097 000)** | (10 132 180) | **(4 035 180)** | 49 |
| Impairment loss/ Reversal of impairments | - | - | **-** | (418 800) | **(418 800)** | 49 |
| Finance costs | (361 000) | (105 000) | **(466 000)** | (465 538) | **462** | 49 |
| Bad debts | (442 000) | - | **(442 000)** | (1 345 922) | **(903 922)** | |
| Repairs and maintenance | - | - | **-** | (4 210 116) | **(4 210 116)** | |
| Contracted Services | (3 756 000) | (281 000) | **(4 037 000)** | (1 233 497) | **2 803 503** | 49 |
| General Expenses | (34 289 000) | (2 559 000) | **(36 848 000)** | (28 123 533) | **8 724 467** | 49 |
| **Total expenditure** | **(82 471 000)** | **(1 241 000)** | **(83 712 000)** | **(81 357 207)** | **2 354 793** | |
| **Operating surplus** | **(831 000)** | **(155 000)** | **(986 000)** | **32 891 905** | **33 877 905** | |
| Actuarial gains/losses | - | - | **-** | (13 722 032) | **(13 722 032)** | |
| Loss on sale of property plant and equipment | - | - | **-** | (204 403) | **(204 403)** | 49 |
| | **-** | **-** | **-** | **(13 926 435)** | **(13 926 435)** | |
| **Surplus before taxation** | **(831 000)** | **(155 000)** | **(986 000)** | **18 965 470** | **19 951 470** | |
| **Actual Amount on Comparable Basis as Presented in the Budget and Actual Comparative Statement** | **(831 000)** | **(155 000)** | **(986 000)** | **18 965 470** | **19 951 470** | |

# Statement of Comparison of Budget and Actual Amounts

Budget on Accrual Basis

| Figures in Rand | Approved budget | Adjustments | Final Budget | Actual amounts on comparable basis | Difference between final budget and actual | Reference |
|---|---|---|---|---|---|---|
| **Capital expendiure** | | | | | | |
| **Capital expenditure by function** | | | | | | |
| Executive and Council | 70 000 | - | **70 000** | 30 025 | **(39 975)** | |
| Budget and Treasury | 480 000 | (114 000) | **366 000** | 416 188 | **50 188** | |
| Infrastructure | 61 262 000 | 1 920 000 | **63 182 000** | 42 919 364 | **(20 262 636)** | |
| Corporate Services | 660 000 | (108 000) | **552 000** | 477 331 | **(74 669)** | |
| Community Services | 5 824 000 | (5 016 000) | **808 000** | 184 526 | **(623 474)** | |
| | **68 296 000** | **(3 318 000)** | **64 978 000** | **44 027 434** | **(20 950 566)** | |
| **Funding Sources** | | | | | | |
| Government Grants | 28 647 000 | 6 525 000 | **35 172 000** | 35 172 000 | **-** | |
| Internal Funding | 39 649 000 | (9 843 000) | **29 806 000** | 8 855 434 | **(20 950 566)** | 49 |
| | **68 296 000** | **(3 318 000)** | **64 978 000** | **44 027 434** | **(20 950 566)** | |

# Accounting Policies

## 1. Presentation of Annual Financial Statements

The financial statements have been prepared in accordance with the Standards of Generally Recognised Accounting Practice (GRAP), issued by the Accounting Standards Board in accordance with Section 122(3) of the Municipal Finance Management Act (Act 56 of 2003).

These financial statements have been prepared on an accrual basis of accounting and are in accordance with historical cost convention as the basis of measurement, unless specified otherwise.

Assets, liabilities, revenues and expenses were not offset, except where offsetting is either required or permitted by a Standard of GRAP.

A summary of the significant accounting policies, which have been consistently applied in the preparation of these financial statements, are disclosed below.

These accounting policies are consistent with the previous period.

### 1.1 Presentation currency

These financial statements are presented in South African Rand, which is the functional currency of the municipality.

### 1.2 Going concern assumption

These financial statements have been prepared based on the expectation that the municipality will continue to operate as a going concern for at least the next 12 months.

### 1.3 Significant judgements and sources of estimation uncertainty

In preparing the financial statements, management is required to make estimates and assumptions that affect the amounts represented in the financial statements and related disclosures. Use of available information and the application of judgement is inherent in the formation of estimates. Actual results in the future could differ from these estimates which may be material to the financial statements.

**Trade receivables**

The municipality assesses its trade receivables for impairment at the end of each reporting period. In determining whether an impairment loss should be recorded in surplus or deficit, the surplus makes judgemental as to whether there is observable data indicating a measurable decrease in the estimated future cash flows from a financial asset.

The impairment for trade receivables is calculated on a portfolio basis, based on historical loss ratios, adjusted for national and industry-specific economic conditions and other indicators present at the reporting date that correlate with defaults on the portfolio. These annual loss ratios are applied to loan balances in the portfolio and scaled to the estimated loss emergence period.

**Fair value estimation**

The fair value of financial instruments traded in active markets is based on quoted market prices at the end of the reporting period. The quoted market price used for financial assets held by the municipality is the current bid price.

The carrying value less impairment provision of trade receivables and payables are assumed to approximate their fair values. The fair value of financial liabilities for disclosure purposes is estimated by discounting the future contractual cash flows at the current market interest rate that is available to the municipality for similar financial instruments.

# Accounting Policies

### 1.3 Significant judgements and sources of estimation uncertainty (continued)

**Impairment testing**

The recoverable amounts of cash-generating units and individual assets have been determined based on the higher of value-in-use calculations and fair values less costs to sell. These calculations require the use of estimates and assumptions. It is reasonably possible that the assumptions may change which may then impact our estimations and may then require a material adjustment to the carrying value of intangible assets.

The municipality reviews and tests the carrying value of assets when events or changes in circumstances suggest that the carrying amount may not be recoverable. Assets are grouped at the lowest level for which identifiable cash flows are largely independent of cash flows of other assets and liabilities. If there are indications that impairment may have occurred, estimates are prepared of expected future cash flows for each group of assets.

**Provisions**

Provisions were raised and management determined an estimate based on the information available. Additional disclosure of these estimates of provisions are included in note 12 - Provisions.

**Useful lives of property, plant and equipment and intangible assets**

The entity's management determines the estimated useful lives and related depreciation charges for property, plant and equipment and intangible assets. This estimate is based on the condition and use of the individual assets, in order to determine the remaining period over which the asset can and will be used.

**Effective interest rate**

The municipality used the government bond rate to discount future cash flows in the event of it being material.

**Allowance for impairment**

On debtors an impairment loss is recognised in surplus and deficit when there is objective evidence that it is impaired. The impairment is measured as the difference between the debtors carrying amount and the present value of estimated future cash flows discounted at the effective interest rate, computed at initial recognition.

**Budget Information**

Deviations between budget and actual amounts are regarded as material differences when a 10% deviation exist. All material differences are explained in the relevant notes to the annual  financial statement

### 1.4 Investment property

Investment property is property (land ) held to earn rentals or for capital appreciation or both, rather than for:
- use in the production or supply of goods or services or for
- administrative purposes, or
- sale in the ordinary course of operations.

Owner-occupied property is property held for use in the production or supply of goods or services or for administrative purposes.

Investment property is recognised as an asset when, it is probable that the future economic benefits or service potential that are associated with the investment property will flow to the municipality, and the cost or fair value of the investment property can be measured reliably.

Investment property is initially recognised at cost. Transaction costs are included in the initial measurement.

Where investment property is acquired through a non-exchange transaction, its cost is its fair value as at the date of acquisition.

Costs include costs incurred initially and costs incurred subsequently to add to, or to replace a part of, or service a property. If a replacement part is recognised in the carrying amount of the investment property, the carrying amount of the replaced part is derecognised.

### 1.4 Investment property (continued)

**Fair value**

Subsequent to initial measurement investment property is measured at fair value.

The fair value of investment property reflects market conditions at the reporting date.

A gain or loss arising from a change in fair value is included in net surplus or deficit for the period in which it arises.

If the entity determines that the fair value of an investment property under construction is not reliably determinable but expects the fair value of the property to be reliably measurable when construction is complete, it measures that investment property under construction at cost until either its fair value becomes reliably determinable or construction is completed (whichever is earlier). If the entity determines that the fair value of an investment property (other than an investment property under construction) is not reliably determinable on a continuing basis, the entity measures that investment property using the cost model (as per the accounting policy on Property, plant and equipment). The residual value of the investment property is then assumed to be zero. The entity applies the cost model (as per the accounting policy on Property, plant and equipment) until disposal of the investment property.

Once the entity becomes able to measure reliably the fair value of an investment property under construction that has previously been measured at cost, it measures that property at its fair value. Once construction of that property is complete, it is presumed that fair value can be measured reliably. If this is not the case, the property is accounted for using the cost model in accordance with the accounting policy on Property, plant and equipment.

### 1.5 Property, plant and equipment

Property, plant and equipment are tangible non-current assets (including infrastructure assets) that are held for use in the production or supply of goods or services, rental to others, or for administrative purposes, and are expected to be used during more than one period.

The cost of an item of property, plant and equipment is recognised as an asset when:

- it is probable that future economic benefits or service potential associated with the item will flow to the municipality; and
- the cost of the item can be measured reliably.

Property, plant and equipment is initially measured at cost.

The cost of an item of property, plant and equipment is the purchase price and other costs attributable to bring the asset to the location and condition necessary for it to be capable of operating in the manner intended by management. Trade discounts and rebates are deducted in arriving at the cost.

Where an asset is acquired through a non-exchange transaction, its cost is its fair value as at date of acquisition.

Where an item of property, plant and equipment is acquired in exchange for a non-monetary asset or monetary assets, or a combination of monetary and non-monetary assets, the asset acquired is initially measured at fair value (the cost). If the acquired item's fair value was not determinable, it's deemed cost is the carrying amount of the asset(s) given up.

When significant components of an item of property, plant and equipment have different useful lives, they are accounted for as separate items (major components) of property, plant and equipment.

Costs include costs incurred initially to acquire or construct an item of property, plant and equipment and costs incurred subsequently to add to, replace part of, or service it. If a replacement cost is recognised in the carrying amount of an item of property, plant and equipment, the carrying amount of the replaced part is derecognised.

Recognition of costs in the carrying amount of an item of property, plant and equipment ceases when the item is in the location and condition necessary for it to be capable of operating in the manner intended by management.

Property, plant and equipment is carried at cost less accumulated depreciation and any impairment losses except for land which is carried at revalued amount being the fair value at the date of revaluation less any subsequent accumulated depreciation and subsequent accumulated impairment losses.

### 1.5 Property, plant and equipment (continued)

Property, plant and equipment are depreciated on the straight line basis over their expected useful lives to their estimated residual value.

Property, plant and equipment is stated at historical cost and is not depreciated as it is deemed to have an indefinite useful life.

The useful lives of items of property, plant and equipment have been assessed as follows:

| Asset Class | Average useful life |
| --- | --- |
| Infrastructure | |
| • Streetlights | 1-30 Years |
| • Roads | 1-30 Years |
| • Pedestrian Footways | 1-30 Years |
| Community Assets | |
| • Office Buildings | 1-30 Years |
| • Cemeteries | 1-30 Years |
| • Community Centers and Halls | 1-30 Years |
| • Libraries | 1-30 Years |
| • Sports and related Stadiums | 1-30 Years |
| • Golf Courses | 1-20 Years |
| • Flood Lighting | 1-15 Years |
| • Park Homes | 1-15 Years |
| • Car Wash | 1-10 Years |
| • Houses/ Hostels | 1-30 Years |
| • Public Places | 1-30 Years |
| • Taxi Rank | 1-30 Years |
| Other Assets | |
| • Landfill site | 1-15 Years |
| • Office Equipment | 1-7 Years |
| • Office Machines | 1-7 Years |
| • Air Conditioners | 1-10 Years |
| • Furniture and Fittings | 1-10 Years |
| • Fire Extinguishers | 1-5 Years |
| • Other Fire Fighting Equipment | 1-15 Years |
| • Computer Equipment | 1-10 Years |
| • Security Measures | 1-20 Years |
| • Train | 1-30 Years |
| • Engine | 1-10 Years |
| • Generator | 1-10 Years |
| • Boiler | 1-10 Years |
| • Loud Hailer / Public Address System | 1-10 Years |
| • Fencing | 1-20 Years |
| Motor Vehicles | |
| • Truck and Light Delivery Vehicles | 1-15 Years |
| • Mini Bus and Delivery Vehicles | 1-7 Years |
| • Tractors | 1-15 Years |
| • Motor Cycles | 1-5 Years |
| Plant and Equipment | |
| • Graders | 1-15 Years |
| • Lawn Mowers | 1-7 Years |
| • Compressors | 1-5 Years |
| • Firearms | 1-15 Years |
| • Radio Equipment | 1-10 Years |

The residual value, and the useful life and depreciation method of each asset are reviewed at the end of each reporting date. If the expectations differ from previous estimates, the change is accounted for as a change in accounting estimate.

Reviewing the useful life of an asset on an annual basis does not require the entity to amend the previous estimate unless expectations differ from the previous estimate.

Each part of an item of property, plant and equipment with a cost that is significant in relation to the total cost of the item is depreciated separately.

### 1.5 Property, plant and equipment (continued)

The depreciation charge for each period is recognised in surplus or deficit unless it is included in the carrying amount of another asset.

Items of property, plant and equipment are derecognised when the asset is disposed of or when there are no further economic benefits or service potential expected from the use of the asset.

The gain or loss arising from the derecognition of an item of property, plant and equipment is included in surplus or deficit when the item is derecognised. The gain or loss arising from the derecognition of an item of property, plant and equipment is determined as the difference between the net disposal proceeds, if any, and the carrying amount of the item.

**Incomplete construction work**

Incomplete construction work is stated at historical cost . Depreciation only commences when the asset is vailable for use.

**Leased assets**

Assets capitalised under finance leases are depreciated over their expected useful lives on the same basis as Property, Plant and Equipment controlled by the municipality or , where shorter , the term of the relevant lease if there is no reasonable certainty that the municipality will obtain ownership by the end of the lease term.

### 1.6 Site restoration and dismantling cost

The municipality has an obligation to dismantle, remove and restore items of property, plant and equipment. Such obligations are referred to as ‘decommissioning, restoration and similar liabilities’. The cost of an item of property, plant and equipment includes the initial estimate of the costs of dismantling and removing the item and restoring the site on which it is located, the obligation for which an municipality incurs either when the item is acquired or as a consequence of having used the item during a particular period for purposes other than to produce inventories during that period.

If the related asset is measured using the cost model:
- (a) subject to (b), changes in the liability are added to, or deducted from, the cost of the related asset in the current period;
- (b) if a decrease in the liability exceeds the carrying amount of the asset, the excess is recognised immediately in surplus or deficit; and
- (c) if the adjustment results in an addition to the cost of an asset, the municipality considers whether this is an indication that the new carrying amount of the asset may not be fully recoverable. If it is such an indication, the asset is tested for impairment by estimating its recoverable amount or recoverable service amount, and any impairment loss is recognised in accordance with the accounting policy on impairment of cash-generating assets and/or impairment of non-cash-generating assets.

### 1.7 Intangible assets

An asset is identifiable if it either:
- is separable, i.e. is capable of being separated or divided from an entity and sold, transferred, licensed, rented or exchanged, either individually or together with a related contract, identifiable assets or liability, regardless of whether the entity intends to do so; or
- arises from binding arrangements (including rights from contracts), regardless of whether those rights are transferable or separable from the municipality or from other rights and obligations.

A binding arrangement describes an arrangement that confers similar rights and obligations on the parties to it as if it were in the form of a contract.

An intangible asset is recognised when:
- it is probable that the expected future economic benefits or service potential that are attributable to the asset will flow to the municipality; and
- the cost or fair value of the asset can be measured reliably.

The municipality assesses the probability of expected future economic benefits or service potential using reasonable and supportable assumptions that represent management’s best estimate of the set of economic conditions that will exist over the useful life of the asset.

# Accounting Policies

### 1.7 Intangible assets (continued)

Where an intangible asset is acquired through a non-exchange transaction, its initial cost at the date of acquisition is measured at its fair value as at that date.

An intangible asset is regarded as having an indefinite useful life when, based on all relevant factors, there is no foreseeable limit to the period over which the asset is expected to generate net cash inflows or service potential. Amortisation is not provided for these intangible assets, but they are tested for impairment annually and whenever there is an indication that the asset may be impaired. For all other intangible assets amortisation is provided on a straight line basis over their useful life.

The amortisation period and the amortisation method for intangible assets are reviewed at each reporting date.

Reassessing the useful life of an intangible asset with a finite useful life after it was classified as indefinite is an indicator that the asset may be impaired. As a result the asset is tested for impairment and the remaining carrying amount is amortised over its useful life.

Amortisation is provided to write down the intangible assets, on a straight line basis, to their residual values as follows:

| **Item** | **Useful life** |
| --- | --- |
| Computer software, other | 3-5 Years |

Intangible assets are derecognised:
- on disposal; or
- when no future economic benefits or service potential are expected from its use or disposal.

The gain or loss is the difference between the net disposal proceeds, if any, and the carrying amount. It is recognised in surplus or deficit when the asset is derecognised.

### 1.8 Financial instruments

A financial instrument is any contract that gives rise to a financial asset of one entity and a financial liability or a residual interest of another entity.

The amortised cost of a financial asset or financial liability is the amount at which the financial asset or financial liability is measured at initial recognition minus principal repayments, plus or minus the cumulative amortisation using the effective interest method of any difference between that initial amount and the maturity amount, and minus any reduction (directly or through the use of an allowance account) for impairment or uncollectibility.

A concessionary loan is a loan granted to or received by an entity on terms that are not market related.

Credit risk is the risk that one party to a financial instrument will cause a financial loss for the other party by failing to discharge an obligation.

Currency risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in foreign exchange rates.

Derecognition is the removal of a previously recognised financial asset or financial liability from an entity's statement of financial position.

A derivative is a financial instrument or other contract with all three of the following characteristics:

- Its value changes in response to the change in a specified interest rate, financial instrument price, commodity price, foreign exchange rate, index of prices or rates, credit rating or credit index, or other variable, provided in the case of a non-financial variable that the variable is not specific to a party to the contract (sometimes called the 'underlying').
- It requires no initial net investment or an initial net investment that is smaller than would be required for other types of contracts that would be expected to have a similar response to changes in market factors.
- It is settled at a future date.

The effective interest method is a method of calculating the amortised cost of a financial asset or a financial liability (or group of financial assets or financial liabilities) and of allocating the interest income or interest expense over the relevant period. The effective interest rate is the rate that exactly discounts estimated future cash payments or receipts through the expected life of the financial instrument or, when appropriate, a shorter period to the net carrying amount of the financial asset or financial liability. When calculating the effective interest rate, an entity shall estimate cash flows considering all contractual terms of the financial instrument (for example, prepayment, call and similar options) but shall not consider future credit losses. The calculation includes all fees and points paid or received between parties to the contract that are an integral part of the effective interest rate (see the Standard of GRAP on Revenue from Exchange Transactions), transaction costs, and all other premiums or discounts. There is a presumption that the cash flows and the expected life of a group of similar financial instruments can be estimated reliably. However, in those rare cases when it is not possible to reliably estimate the cash flows or the expected life of a financial instrument (or group of financial instruments), the entity shall use the contractual cash flows over the full contractual term of the financial instrument (or group of financial instruments).

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable willing parties in an arm's length transaction.

A financial asset is:

- cash;
- a residual interest of another entity; or
- a contractual right to:
  - receive cash or another financial asset from another entity; or
  - exchange financial assets or financial liabilities with another entity under conditions that are potentially favourable to the entity.

A financial guarantee contract is a contract that requires the issuer to make specified payments to reimburse the holder for a loss it incurs because a specified debtor fails to make payment when due in accordance with the original or modified terms of a debt instrument.

A financial liability is any liability that is a contractual obligation to:

- deliver cash or another financial asset to another entity; or
- exchange financial assets or financial liabilities under conditions that are potentially unfavourable to the entity.

### 1.8 Financial instruments (continued)

Interest rate risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market interest rates.

Liquidity risk is the risk encountered by an entity in the event of difficulty in meeting obligations associated with financial liabilities that are settled by delivering cash or another financial asset.

Loan commitment is a firm commitment to provide credit under pre-specified terms and conditions.

Loans payable are financial liabilities, other than short-term payables on normal credit terms.

Market risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices. Market risk comprises three types of risk: currency risk, interest rate risk and other price risk.

Other price risk is the risk that the fair value or future cash flows of a financial instrument will fluctuate because of changes in market prices (other than those arising from interest rate risk or currency risk), whether those changes are caused by factors specific to the individual financial instrument or its issuer, or factors affecting all similar financial instruments traded in the market.

A financial asset is past due when a counterparty has failed to make a payment when contractually due.

A residual interest is any contract that manifests an interest in the assets of an entity after deducting all of its liabilities. A residual interest includes contributions from owners, which may be shown as:

- equity instruments or similar forms of unitised capital;
- a formal designation of a transfer of resources (or a class of such transfers) by the parties to the transaction as forming part of an entity’s net assets, either before the contribution occurs or at the time of the contribution; or
- a formal agreement, in relation to the contribution, establishing or increasing an existing financial interest in the net assets of an entity.

Transaction costs are incremental costs that are directly attributable to the acquisition, issue or disposal of a financial asset or financial liability. An incremental cost is one that would not have been incurred if the entity had not acquired, issued or disposed of the financial instrument.

Financial instruments at amortised cost are non-derivative financial assets or non-derivative financial liabilities that have fixed or determinable payments, excluding those instruments that:

- the entity designates at fair value at initial recognition; or
- are held for trading.

Financial instruments at cost are investments in residual interests that do not have a quoted market price in an active market, and whose fair value cannot be reliably measured.

Financial instruments at fair value comprise financial assets or financial liabilities that are:

- derivatives;
- combined instruments that are designated at fair value;
- instruments held for trading. A financial instrument is held for trading if:
  - it is acquired or incurred principally for the purpose of selling or repurchasing it in the near-term; or
  - on initial recognition it is part of a portfolio of identified financial instruments that are managed together and for which there is evidence of a recent actual pattern of short term profit-taking;
  - non-derivative financial assets or financial liabilities with fixed or determinable payments that are designated at fair value at initial recognition; and
  - financial instruments that do not meet the definition of financial instruments at amortised cost or financial instruments at cost.

### 1.8 Financial instruments (continued)

**Classification**

The entity has the following types of financial assets (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

| Type of Financial Asset | Classification in terms of GRAP 104 |
| --- | --- |
| Receivables from non-exchange transactions | Financial asset measured at amortised cost |
| Receivables from exchange transactions | Financial asset measured at amortised cost |
| Bank , Cash and cash equivalents : Bank and Cash | Financial asset measured at amortised cost |
| Bank, Cash and cash equivalents: Call investments | Financial asset measured at amortised cost |

The entity has the following types of financial liabilities (classes and category) as reflected on the face of the statement of financial position or in the notes thereto:

| Type of Financial Liability | Classification in terms of GRAP 104 |
| --- | --- |
| Trade payables from Non-exchange transactions | Financial liability measured at amortised cost |
| Trade payables from exchange transactions | Financial liability measured at amortised cost |
| Current portion of finance lease liability : | Financial liability measured at amortised cost |
| Finance lease liability | Financial liability measured at amortised cost |

**Initial recognition**

The entity recognises a financial asset or a financial liability in its statement of financial position when the entity becomes a party to the contractual provisions of the instrument.

The entity recognises financial assets using trade date accounting.

**Initial measurement of financial assets and financial liabilities**

The entity measures a financial asset and financial liability initially at its fair value plus transaction costs that are directly attributable to the acquisition or issue of the financial asset or financial liability.

The entity measures a financial asset and financial liability initially at its fair value [if subsequently measured at fair value].

The entity first assesses whether the substance of a concessionary loan is in fact a loan. On initial recognition, the entity analyses a concessionary loan into its component parts and accounts for each component separately. The entity accounts for that part of a concessionary loan that is:

- a social benefit in accordance with the Framework for the Preparation and Presentation of Financial Statements, where it is the issuer of the loan; or
- non-exchange revenue, in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers), where it is the recipient of the loan.

### 1.8 Financial instruments (continued)

**Subsequent measurement of financial assets and financial liabilities**

The entity measures all financial assets and financial liabilities after initial recognition using the following categories:
- Financial instruments at amortised cost.

All financial assets measured at amortised cost, or cost, are subject to an impairment review.

**Fair value measurement considerations**

The best evidence of fair value is quoted prices in an active market. If the market for a financial instrument is not active, the entity establishes fair value by using a valuation technique. The objective of using a valuation technique is to establish what the transaction price would have been on the measurement date in an arm's length exchange motivated by normal operating considerations. Valuation techniques include using recent arm's length market transactions between knowledgeable, willing parties, if available, reference to the current fair value of another instrument that is substantially the same, discounted cash flow analysis and option pricing models. If there is a valuation technique commonly used by market participants to price the instrument and that technique has been demonstrated to provide reliable estimates of prices obtained in actual market transactions, the entity uses that technique. The chosen valuation technique makes maximum use of market inputs and relies as little as possible on entity-specific inputs. It incorporates all factors that market participants would consider in setting a price and is consistent with accepted economic methodologies for pricing financial instruments. Periodically, an municipality calibrates the valuation technique and tests it for validity using prices from any observable current market transactions in the same instrument (i.e. without modification or repackaging) or based on any available observable market data.

The fair value of a financial liability with a demand feature (e.g. a demand deposit) is not less than the amount payable on demand, discounted from the first date that the amount could be required to be paid.

**1.8 Financial instruments (continued)**

**Derecognition**

**Financial assets**

The entity derecognises financial assets using trade date accounting.

The entity derecognises a financial asset only when:
- the contractual rights to the cash flows from the financial asset expire, are settled or waived;
- the entity transfers to another party substantially all of the risks and rewards of ownership of the financial asset; or
- the entity, despite having retained some significant risks and rewards of ownership of the financial asset, has transferred control of the asset to another party and the other party has the practical ability to sell the asset in its entirety to an unrelated third party, and is able to exercise that ability unilaterally and without needing to impose additional restrictions on the transfer. In this case, the entity :
  - derecognise the asset; and
  - recognise separately any rights and obligations created or retained in the transfer.

The carrying amounts of the transferred asset are allocated between the rights or obligations retained and those transferred on the basis of their relative fair values at the transfer date. Newly created rights and obligations are measured at their fair values at that date. Any difference between the consideration received and the amounts recognised and derecognised is recognised in surplus or deficit in the period of the transfer.

If the entity transfers a financial asset in a transfer that qualifies for derecognition in its entirety and retains the right to service the financial asset for a fee, it recognise either a servicing asset or a servicing liability for that servicing contract. If the fee to be received is not expected to compensate the entity adequately for performing the servicing, a servicing liability for the servicing obligation is recognised at its fair value. If the fee to be received is expected to be more than adequate compensation for the servicing, a servicing asset is recognised for the servicing right at an amount determined on the basis of an allocation of the carrying amount of the larger financial asset.

If, as a result of a transfer, a financial asset is derecognised in its entirety but the transfer results in the entity obtaining a new financial asset or assuming a new financial liability, or a servicing liability, the entity recognise the new financial asset, financial liability or servicing liability at fair value.

On derecognition of a financial asset in its entirety, the difference between the carrying amount and the sum of the consideration received is recognised in surplus or deficit.

If the transferred asset is part of a larger financial asset and the part transferred qualifies for derecognition in its entirety, the previous carrying amount of the larger financial asset is allocated between the part that continues to be recognised and the part that is derecognised, based on the relative fair values of those parts, on the date of the transfer. For this purpose, a retained servicing asset is treated as a part that continues to be recognised. The difference between the carrying amount allocated to the part derecognised and the sum of the consideration received for the part derecognised is recognised in surplus or deficit.

If a transfer does not result in derecognition because the entity has retained substantially all the risks and rewards of ownership of the transferred asset, the entity continue to recognise the transferred asset in its entirety and recognise a financial liability for the consideration received. In subsequent periods, the entity recognises any revenue on the transferred asset and any expense incurred on the financial liability. Neither the asset, and the associated liability nor the revenue, and the associated expenses are offset.

**Financial liabilities**

The entity removes a financial liability (or a part of a financial liability) from its statement of financial position when it is extinguished — i.e. when the obligation specified in the contract is discharged, cancelled, expires or waived.

An exchange between an existing borrower and lender of debt instruments with substantially different terms is accounted for as having extinguished the original financial liability and a new financial liability is recognised. Similarly, a substantial modification of the terms of an existing financial liability or a part of it is accounted for as having extinguished the original financial liability and having recognised a new financial liability.

## Accounting Policies

### 1.8 Financial instruments (continued)

The difference between the carrying amount of a financial liability (or part of a financial liability) extinguished or transferred to another party and the consideration paid, including any non-cash assets transferred or liabilities assumed, is recognised in surplus or deficit. Any liabilities that are waived, forgiven or assumed by another entity by way of a non-exchange transaction are accounted for in accordance with the Standard of GRAP on Revenue from Non-exchange Transactions (Taxes and Transfers).

**Presentation**

Interest relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Losses and gains relating to a financial instrument or a component that is a financial liability is recognised as revenue or expense in surplus or deficit.

Distributions to holders of residual interests are debited by the entity directly to net assets, net of any related income tax benefit [where applicable]. Transaction costs incurred on residual interests is accounted for as a deduction from net assets, net of any related income tax benefit [where applicable].

A financial asset and a financial liability are only offset and the net amount presented in the statement of financial position when the entity currently has a legally enforceable right to set off the recognised amounts and intends either to settle on a net basis, or to realise the asset and settle the liability simultaneously.

In accounting for a transfer of a financial asset that does not qualify for derecognition, the entity does not offset the transferred asset and the associated liability.

### 1.9 Leases

A lease is classified as a finance lease if it transfers substantially all the risks and rewards incidental to ownership. A lease is classified as an operating lease if it does not transfer substantially all the risks and rewards incidental to ownership.

When a lease includes both land and buildings elements, the entity assesses the classification of each element separately.

**Finance leases - lessee**

Finance leases are recognised as assets and liabilities in the statement of financial position at amounts equal to the fair value of the leased property or, if lower, the present value of the minimum lease payments. The corresponding liability to the lessor is included in the statement of financial position as a finance lease obligation.

The discount rate used in calculating the present value of the minimum lease payments is the interest rate implicit in the lease.

Minimum lease payments are apportioned between the finance charge and reduction of the outstanding liability. The finance charge is allocated to each period during the lease term so as to produce a constant periodic rate of on the remaining balance of the liability.

Any contingent rents are expensed in the period in which they are incurred.

### 1.10 Impairment of cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset’s future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

### 1.10 Impairment of cash-generating assets (continued)

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable amount of an asset or a cash-generating unit is the higher its fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production units or similar units expected to be obtained from the assets by the municipality.

### 1.11 Impairment of non-cash-generating assets

Cash-generating assets are those assets held by the municipality with the primary objective of generating a commercial return. When an asset is deployed in a manner consistent with that adopted by a profit-orientated entity, it generates a commercial return.

Non-cash-generating assets are assets other than cash-generating assets.

Impairment is a loss in the future economic benefits or service potential of an asset, over and above the systematic recognition of the loss of the asset's future economic benefits or service potential through depreciation (amortisation).

Carrying amount is the amount at which an asset is recognised in the statement of financial position after deducting any accumulated depreciation and accumulated impairment losses thereon.

A cash-generating unit is the smallest identifiable group of assets held with the primary objective of generating a commercial return that generates cash inflows from continuing use that are largely independent of the cash inflows from other assets or groups of assets.

Costs of disposal are incremental costs directly attributable to the disposal of an asset, excluding finance costs and income tax expense.

Depreciation (Amortisation) is the systematic allocation of the depreciable amount of an asset over its useful life.

Fair value less costs to sell is the amount obtainable from the sale of an asset in an arm's length transaction between knowledgeable, willing parties, less the costs of disposal.

Recoverable service amount is the higher of a non-cash-generating asset's fair value less costs to sell and its value in use.

Useful life is either:
- (a) the period of time over which an asset is expected to be used by the municipality; or
- (b) the number of production or similar units expected to be obtained from the asset by the municipality.

Criteria developed by the municipality to distinguish non-cash-generating assets from cash-generating assets are as follow:
[Specify criteria]

### 1.12 Employee benefits

Employee benefits are all forms of consideration given by the entity in exchange for service rendered by employees.

Termination benefits are employee benefits payable as a result of either:
- an entity's decision to terminate an employee's employment before the normal retirement date; or
- an employee's decision to accept voluntary redundancy in exchange for those benefits.

### 1.12 Employee benefits (continued)

Other long-term employee benefits are employee benefits (other than post-employment benefits and termination benefits) that are not due to be settled within twelve months after the end of the period in which the employees render the related service.

Vested employee benefits are employee benefits that are not conditional on future employment.

Composite social security programmes are established by legislation and operate as multi-employer plans to provide post-employment benefits as well as to provide benefits that are not consideration in exchange for service rendered by employees.

A constructive obligation is an obligation that derives from the entity's actions where by an established pattern of past practice, published policies or a sufficiently specific current statement, the entity has indicated to other parties that it will accept certain responsibilities and as a result, the entity has created a valid expectation on the part of those other parties that it will discharge those responsibilities.

**Short-term employee benefits**

Short-term employee benefits are employee benefits (other than termination benefits) that are due to be settled within twelve months after the end of the period in which the employees render the related service.

Short-term employee benefits include items such as:
- wages, salaries and social security contributions;
- short-term compensated absences (such as paid annual leave and paid sick leave) where the compensation for the absences is due to be settled within twelve months after the end of the reporting period in which the employees render the related employee service;
- bonus, incentive and performance related payments payable within twelve months after the end of the reporting period in which the employees render the related service; and
- non-monetary benefits (for example, medical care, and free or subsidised goods or services such as housing, cars and cellphones) for current employees.

When an employee has rendered service to the entity during a reporting period, the entity recognise the undiscounted amount of short-term employee benefits expected to be paid in exchange for that service:
- as a liability (accrued expense), after deducting any amount already paid. If the amount already paid exceeds the undiscounted amount of the benefits, the entity recognise that excess as an asset (prepaid expense) to the extent that the prepayment will lead to, for example, a reduction in future payments or a cash refund; and
- as an expense, unless another Standard requires or permits the inclusion of the benefits in the cost of an asset.

The expected cost of compensated absences is recognised as an expense as the employees render services that increase their entitlement or, in the case of non-accumulating absences, when the absence occurs. The entity measure the expected cost of accumulating compensated absences as the additional amount that the entity expects to pay as a result of the unused entitlement that has accumulated at the reporting date.

The entity recognise the expected cost of bonus, incentive and performance related payments when the entity has a present legal or constructive obligation to make such payments as a result of past events and a reliable estimate of the obligation can be made. A present obligation exists when the entity has no realistic alternative but to make the payments.

**Defined contribution plans-KZN Joint Municipal Pension fund**

The municipality has a defined contribution plan with Natal Joint Municipal Pension Fund . Payments to a defined contribution plan are charged as an expense as they fall due.

### 1.12 Employee benefits (continued)

**Other employee benefits**

The municipality provides long service awards benefits to certain qualifying employees after the completion of a minimum service period.

The expected costs of these benefits are accrued over the period of employment. Independent qualified actuaries carry out valuations of these obligations.

The amount recognised as a liability for other long-term employee benefits is the net total of the following amounts:

- the present value of the defined benefit obligation at the reporting date;
- minus the fair value at the reporting date of plan assets (if any) out of which the obligations are to be settled directly.

The entity shall recognise the net total of the following amounts as expense or revenue, except to the extent that another Standard requires or permits their inclusion in the cost of an asset:

- current service cost;
- interest cost;
- the expected return on any plan assets and on any reimbursement right recognised as an asset;
- actuarial gains and losses, which shall all be recognised immediately;
- past service cost, which shall all be recognised immediately; and
- the effect of any curtailments or settlements.

### 1.13 Provisions and contingencies

Provisions are recognised when:

- the municipality has a present obligation as a result of a past event;
- it is probable that an outflow of resources embodying economic benefits or service potential will be required to settle the obligation; and
- a reliable estimate can be made of the obligation.

The amount of a provision is the best estimate of the expenditure expected to be required to settle the present obligation at the reporting date.

Where some or all of the expenditure required to settle a provision is expected to be reimbursed by another party, the reimbursement is recognised when, and only when, it is virtually certain that reimbursement will be received if the municipality settles the obligation. The reimbursement is treated as a separate asset. The amount recognised for the reimbursement does not exceed the amount of the provision.

Provisions are reviewed at each reporting date and adjusted to reflect the current best estimate. Provisions are reversed if it is no longer probable that an outflow of resources embodying economic benefits or service potential will be required, to settle the obligation.

A provision is used only for expenditures for which the provision was originally recognised.

Provisions are not recognised for future operating deficits.

Contingent assets and contingent liabilities are not recognised.

The municipality has an obligation to rehabilitate its landfill site in terms of its licence stipulations .The amount of the provision is recognised at the present value of the expenditure expected to be required to settle the obligation.

### 1.14 Revenue from exchange transactions

Revenue is the gross inflow of economic benefits or service potential during the reporting period when those inflows result in an increase in net assets, other than increases relating to contributions from owners.

An exchange transaction is one in which the municipality receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of goods, services or use of assets) to the other party in exchange.

## Accounting Policies

### 1.14 Revenue from exchange transactions (continued)

Fair value is the amount for which an asset could be exchanged, or a liability settled, between knowledgeable, willing parties in an arm's length transaction.

**Measurement**

Revenue is measured at the fair value of the consideration received or receivable, net of trade discounts and volume rebates.

**Sale of goods**

Revenue from the sale of goods is recognised when all the following conditions have been satisfied:
- the municipality has transferred to the purchaser the significant risks and rewards of ownership of the goods;
- the municipality retains neither continuing managerial involvement to the degree usually associated with ownership nor effective control over the goods sold;
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality; and
- the costs incurred or to be incurred in respect of the transaction can be measured reliably.

**Rendering of services**

When the outcome of a transaction involving the rendering of services can be estimated reliably, revenue associated with the transaction is recognised by reference to the stage of completion of the transaction at the reporting date. The outcome of a transaction can be estimated reliably when all the following conditions are satisfied:
- the amount of revenue can be measured reliably;
- it is probable that the economic benefits or service potential associated with the transaction will flow to the municipality;
- the stage of completion of the transaction at the reporting date can be measured reliably; and
- the costs incurred for the transaction and the costs to complete the transaction can be measured reliably.

When services are performed by an indeterminate number of acts over a specified time frame, revenue is recognised on a straight line basis over the specified time frame unless there is evidence that some other method better represents the stage of completion. When a specific act is much more significant than any other acts, the recognition of revenue is postponed until the significant act is executed.

When the outcome of the transaction involving the rendering of services cannot be estimated reliably, revenue is recognised only to the extent of the expenses recognised that are recoverable.

Service revenue is recognised by reference to the stage of completion of the transaction at the reporting date. Stage of completion is determined by services performed to date as a percentage of total services to be performed.

**Interest**

Revenue arising from the use by others of entity assets yielding interest, service fees or similar distributions is recognised when:
- It is probable that the economic benefits or service potential associated with the transaction will flow to the municipality, and
- The amount of the revenue can be measured reliably.

Interest is recognised, in surplus or deficit, using the effective interest rate method.

Service fees included in the price of the product are recognised as revenue over the period during which the service is performed.

### 1.15 Service charges

Waste removal is based on the size of the bin and the number of times it  is collected. Waste removal services are billed on a monthly basis.

# Accounting Policies

### 1.16 Revenue from non-exchange transactions

Revenue comprises gross inflows of economic benefits or service potential received and receivable by an municipality, which represents an increase in net assets, other than increases relating to contributions from owners.

Conditions on transferred assets are stipulations that specify that the future economic benefits or service potential embodied in the asset is required to be consumed by the recipient as specified or future economic benefits or service potential must be returned to the transferor.

Control of an asset arise when the municipality can use or otherwise benefit from the asset in pursuit of its objectives and can exclude or otherwise regulate the access of others to that benefit.

Exchange transactions are transactions in which one entity receives assets or services, or has liabilities extinguished, and directly gives approximately equal value (primarily in the form of cash, goods, services, or use of assets) to another entity in exchange.

Expenses paid through the tax system are amounts that are available to beneficiaries regardless of whether or not they pay taxes.

Fines are economic benefits or service potential received or receivable by entities, as determined by a court or other law enforcement body, as a consequence of the breach of laws or regulations.

Non-exchange transactions are transactions that are not exchange transactions. In a non-exchange transaction, an municipality either receives value from another municipality without directly giving approximately equal value in exchange, or gives value to another municipality without directly receiving approximately equal value in exchange.

Restrictions on transferred assets are stipulations that limit or direct the purposes for which a transferred asset may be used, but do not specify that future economic benefits or service potential is required to be returned to the transferor if not deployed as specified.

Stipulations on transferred assets are terms in laws or regulation, or a binding arrangement, imposed upon the use of a transferred asset by entities external to the reporting municipality.

Tax expenditures are preferential provisions of the tax law that provide certain taxpayers with concessions that are not available to others.

The taxable event is the event that the government, legislature or other authority has determined will be subject to taxation.

Taxes are economic benefits or service potential compulsorily paid or payable to entities, in accordance with laws and or regulations, established to provide revenue to government. Taxes do not include fines or other penalties imposed for breaches of the law.

Transfers are inflows of future economic benefits or service potential from non-exchange transactions, other than taxes.

**Recognition**

An inflow of resources from a non-exchange transaction recognised as an asset is recognised as revenue, except to the extent that a liability is also recognised in respect of the same inflow.

As the municipality satisfies a present obligation recognised as a liability in respect of an inflow of resources from a non-exchange transaction recognised as an asset, it reduces the carrying amount of the liability recognised and recognises an amount of revenue equal to that reduction.

## Accounting Policies

### 1.16 Revenue from non-exchange transactions (continued)

**Measurement**

Revenue from a non-exchange transaction is measured at the amount of the increase in net assets recognised by the municipality.

When, as a result of a non-exchange transaction, the municipality recognises an asset, it also recognises revenue equivalent to the amount of the asset measured at its fair value as at the date of acquisition, unless it is also required to recognise a liability. Where a liability is required to be recognised it will be measured as the best estimate of the amount required to settle the obligation at the reporting date, and the amount of the increase in net assets, if any, recognised as revenue. When a liability is subsequently reduced, because the taxable event occurs or a condition is satisfied, the amount of the reduction in the liability is recognised as revenue.

**Taxes**

The municipality recognises an asset in respect of taxes when the taxable event occurs and the asset recognition criteria are met.

Resources arising from taxes satisfy the definition of an asset when the municipality controls the resources as a result of a past event (the taxable event) and expects to receive future economic benefits or service potential from those resources. Resources arising from taxes satisfy the criteria for recognition as an asset when it is probable that the inflow of resources will occur and their fair value can be reliably measured. The degree of probability attached to the inflow of resources is determined on the basis of evidence available at the time of initial recognition, which includes, but is not limited to, disclosure of the taxable event by the taxpayer.

The municipality analyses the taxation laws to determine what the taxable events are for the various taxes levied.

The taxable event for property tax is the passing of the date on which the tax is levied, or the period for which the tax is levied, if the tax is levied on a periodic basis.

Taxation revenue is determined at a gross amount. It is not reduced for expenses paid through the tax system.

**Transfers**

Apart from Services in kind, which are not recognised, the municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

The municipality recognises an asset in respect of transfers when the transferred resources meet the definition of an asset and satisfy the criteria for recognition as an asset.

Transferred assets are measured at their fair value as at the date of acquisition.

**Debt forgiveness and assumption of liabilities**

The municipality recognise revenue in respect of debt forgiveness when the former debt no longer meets the definition of a liability or satisfies the criteria for recognition as a liability, provided that the debt forgiveness does not satisfy the definition of a contribution from owners.

Revenue arising from debt forgiveness is measured at the carrying amount of debt forgiven.

**Fines**

Fines are economic benefits or service potential received or receivable by the municipality ,as determined by court or other law enforcement body , as a consequence of breach of laws or regulations. Fines are recognised as revenue when the receivable meets the definition of an asset and satisfies the criteria for recognition as an asset. Assets arising from fines are measured at the best estimate of the inflow of resources to the municipality

The best estimate is made to assess the probability of collecting fines revenue after initial recognition of an asset..

Where the municipality collects fines in the capacity of an agent, the fine will not be revenue of the collecting entity.

# Accounting Policies

### 1.16 Revenue from non-exchange transactions (continued)

**Gifts and donations, including goods in-kind**

Gifts and donations, including goods in kind, are recognised as assets and revenue when it is probable that the future economic benefits or service potential will flow to the municipality and the fair value of the assets can be measured reliably.

**Services in-kind**

Services in-kind are not recognised but are disclosed in the notes to the annual financial statements.

### 1.17 Investment income

Investment income is recognised on a time-proportion basis using the effective interest method.

### 1.18 Comparative figures

Where necessary, comparative figures have been reclassified to conform to changes in presentation in the current year.

### 1.19 Unauthorised expenditure

Unauthorised expenditure means:
- overspending of a vote or a main division within a vote; and
- expenditure not in accordance with the purpose of a vote or, in the case of a main division, not in accordance with the purpose of the main division.

All expenditure relating to unauthorised expenditure is recognised as an expense in the statement of financial performance in the period that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.20 Fruitless and wasteful expenditure

Fruitless expenditure means expenditure which was made in vain and would have been avoided had reasonable care been exercised.

All expenditure relating to fruitless and wasteful expenditure is recognised as an expense in the statement of financial performance in the period that the expenditure was incurred. The expenditure is classified in accordance with the nature of the expense, and where recovered, it is subsequently accounted for as revenue in the statement of financial performance.

### 1.21 Irregular expenditure

Irregular expenditure is expenditure that is contrary to the Municipal Finance Management Act (Act No.56 of 2003), the Municipal Systems Act (Act No.32 of 2000), and the Public Office Bearers Act (Act No. 20 of 1998) or is in contravention of the economic entity’s supply chain management policy. Irregular expenditure excludes unauthorised expenditure. Irregular expenditure is accounted for as expenditure in the Statement of Financial Performance and where recovered, it is subsequently accounted for as revenue in the Statement of Financial Performance.

### 1.22 Housing development fund

The Housing Development Fund was established in terms of the Housing Act, (Act No. 107 of 1997). Loans from national and provincial government used to finance housing selling schemes undertaken by the municipality were extinguished on 1 April 1998 and transferred to a Housing Development Fund. Housing selling schemes, both complete and in progress as at 1 April 1998, were also transferred to the Housing Development Fund. In terms of the Housing Act, all proceeds from housing developments, which include rental income and sales of houses, must be paid into the Housing Development Fund. Monies standing to the credit of the Housing Development Fund can be used only to finance housing developments within the municipal area subject to the approval of the Provincial MEC responsible for housing.

### 1.23 Conditional grants and receipts

Revenue received from conditional grants, donations and funding are recognised as revenue to the extent that the municipality has complied with any of the criteria, conditions or obligations embodied in the agreement. To the extent that the criteria, conditions or obligations have not been met a liability is recognised.

# Accounting Policies

### 1.24 Events after reporting date

Events after reporting  dates that are classified as adjusting events have been accounted for in annual financial statements. Events after reporting date that are classified as non-adjusting events after reporting date  have been disclosed in the notes to the annual financial statements.

### 1.25 Budget information

The annual budget figures have been prepared in accordance with the GRAP standard and are consistent with the Accounting Policies dopted by the Council for the preparation of the Annual Financial Statements .The amounts are scheduled as a separate additional financial statement , called the Statement of Comparison of  Budget and Actual amounts . Explanatory comments are provided in the statement giving reasons for overall growth or decline in the budget and motivations for over-or under spending on line items.

The approved budget is prepared on a accrual basis and presented by functional classification linked to performance outcome objectives.

The approved budget covers the fiscal period from 2014/07/01 to 2015/06/30.

### 1.26 Related parties

Individuals as well as their close family members , and /or entities are related parties if one party has the ability , directly or indirectly , to control or jpintly control the other party or exercise significant influence over the other party in making financial and /or operating decisions . Management is regarded as related party and cpmprises  the Councillors , Mayor , Executive Commitee Members, Municipal Manager , Chief Financial Officer and all other managers reporting directly to the Municipal manager or as designated by the Municipal Manager.

### 1.27 Events after reporting date

Events after reporting date are those events, both favourable and unfavourable, that occur between the reporting date and the date when the financial statements are authorised for issue. Two types of events can be identified:

- those that provide evidence of conditions that existed at the reporting date (adjusting events after the reporting date); and
- those that are indicative of conditions that arose after the reporting date (non-adjusting events after the reporting date).

The municipality will adjust the amount recognised in the financial statements to reflect adjusting events after the reporting date once the event occurred.

The municipality will disclose the nature of the event and an estimate of its financial effect or a statement that such estimate cannot be made in respect of all material non-adjusting events, where non-disclosure could influence the economic decisions of users taken on the basis of the financial statements.

### 1.28 Commitments

Commitments are future expenditure to which the municipality committed and will result in the outflow of resources . Commitments are not recognised in the Statement of Financial Position as a liability or expenditure in the Statement of Financial Performance  but are included in a discloure note

Commitements are disclosed for :

(i) Approved and contracted commitments , where the expenditure has been approved and the contract have been awarded at the reporting date , where the disclosure is required bu specific standard of GRAP.

(ii) Approved but not yet contracted for , where the expenditure has been approved and the contract is yet to be awarded or is awaiting finalisation at the reporting date

(iii) Items are classified as commitments where the municipality commits itself to future transactions that will normally results in the ouflow of resources

(iv) Contracts that are entered into before the reporting date, but goods and services have not yet been received are disclosed in the disclosure Notes to the Annual Financial Statements

# Accounting Policies

### 1.28 Commitments (continued)

(v) Other commitments for contracts that are non-cancellable or onl cancellable at significant cost, should relate to something other than the business of the municipality

### 1.29 Value added tax

The municipality accounts for Value Added Tax on a cash basis.

# Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
| --- | --- | --- |

## 2. Receivables from non-exchange transactions

| | | |
| --- | --- | --- |
| Traffic fines | 553 511 | 433 354 |
| Suppliers deposits | 151 939 | 113 471 |
| Other receivables | 224 617 | 51 374 |
| | **930 067** | **598 199** |

**Receivables from non-exchange transactions pledged as security**

There were no receivables from non-exchange transactions that were pledged as security .

## 3. VAT receivable

| | | |
| --- | --- | --- |
| VAT | 2 859 365 | 1 755 106 |

## 4. Receivables from exchange and non-exchange transactions

| | | |
| --- | --- | --- |
| **Gross balances** | | |
| Rates | 7 648 099 | 6 239 685 |
| Refuse | 1 169 066 | 890 262 |
| Rental | 289 144 | 233 684 |
| VAT | 210 250 | 164 880 |
| Sundry debtors | 10 304 | 15 952 |
| | **9 326 863** | **7 544 463** |
| **Less: Allowance for impairment** | | |
| Provision for impairment | (8 158 195) | (7 096 530) |
| **Net balance** | | |
| Rates | 7 648 099 | 6 239 685 |
| Refuse | 1 169 066 | 890 262 |
| Rental | 289 144 | 233 684 |
| Vat | 210 250 | 164 880 |
| Sundry debtors | 10 304 | 15 952 |
| Provision for impairment | (8 158 195) | (7 096 530) |
| | **1 168 668** | **447 932** |
| **Included in above is receivables from exchange transactions** | | |
| Rental | 289 144 | 233 684 |
| Refuse | 1 169 066 | 890 262 |
| Sundry debtors | 10 304 | 15 952 |
| | **1 468 514** | **1 139 898** |
| **Included in above is receivables from non-exchange transactions (taxes and transfers)** | | |
| Rates | 7 868 747 | 6 239 685 |
| VAT | 210 250 | 164 880 |
| | **8 078 997** | **6 404 565** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|---|---|---|

## 4. Receivables from exchange and non-exchange transactions (continued)

| | | |
|---|---|---|
| **Rates** | | |
| Current (0 -30 days) | - | 621 257 |
| 31 - 60 days | 11 708 | 728 587 |
| 61 - 90 days | - | 550 |
| 91 - 120 days | - | 467 503 |
| > 121 days | 7 636 391 | 4 421 787 |
| | **7 648 099** | **6 239 684** |

| | | |
|---|---|---|
| **Refuse** | | |
| Current (0 -30 days) | 57 084 | 161 |
| 31 - 60 days | 49 424 | 48 902 |
| 61 - 90 days | 47 859 | 45 534 |
| 91 - 120 days | 47 037 | 37 427 |
| > 121days | 1 177 911 | 1 071 666 |
| | **1 379 315** | **1 203 690** |

| | | |
|---|---|---|
| **Rental** | | |
| Current (0 -30 days) | 11 467 | 2 387 |
| 31 - 60 days | 13 795 | 15 654 |
| 61 - 90 days | 9 662 | 15 654 |
| 91 - 120 days | 9 662 | 15 272 |
| > 121 days | 244 557 | 200 842 |
| | **289 143** | **249 809** |

| | | |
|---|---|---|
| **Sundry Debtors** | | |
| > 121 days | 10 304 | 16 158 |

| Figures in Rand | 2015 | 2014 |
|---|---|---|

### 4. Receivables from exchange and non-exchange transactions (continued)

**Summary of debtors by customer classification**

| | | |
|---|---|---|
| **Consumers** | | |
| Current (0 -30 days) | 8 145 | 83 312 |
| 31 - 60 days | 15 643 | 84 344 |
| 61 - 90 days | 11 684 | 96 355 |
| 91 - 120 days | 11 145 | 101 948 |
| > 121days | 1 266 475 | 1 058 014 |
| | **1 313 092** | **1 423 973** |
| **Industrial/ commercial** | | |
| Current (0 -30 days) | 132 323 | 15 434 |
| 31 - 60 days | 2 972 | 35 455 |
| 61 - 90 days | 2 544 | 176 535 |
| 91 - 120 days | 2 543 | 201 847 |
| > 121 days | 779 873 | 1 913 827 |
| | **920 255** | **2 343 098** |
| **National and provincial government** | | |
| Current (0 -30 days) | 29 912 | 31 535 |
| 31 - 60 days | 46 092 | 43 554 |
| 61 - 90 days | 42 192 | 54 553 |
| 91 - 120 days | 41 911 | 65 455 |
| >121 days | 4 875 136 | 3 582 295 |
| | **5 035 243** | **3 777 392** |
| **Total** | | |
| Current (0 -30 days) | 65 570 | 130 281 |
| 31 - 60 days | 64 603 | 163 353 |
| 61 - 90 days | 56 421 | 327 443 |
| 91 - 120 days | 55 599 | 369 250 |
| > 121 days | 9 084 670 | 6 554 136 |
| | 9 326 863 | 7 544 463 |
| Less: Allowance for impairment | (8 158 195) | (7 096 530) |
| | **1 168 668** | **447 932** |
| **Reconciliation of allowance for impairment** | | |
| Balance at beginning of the year | (7 096 530) | (5 737 745) |
| Bad debt written off | 284 257 | 624 548 |
| Contribution to bad debts | (1 345 922) | (1 983 333) |
| | **(8 158 195)** | **(7 096 530)** |

The provision for impairment on receivables exists predominantly due to the possibility that these debts will not be recovered . Receivables were assessed individually and grouped together at the Statement of Financial Position as financial assets with similar credit risk characteristics and collectively assessed for impairment.

The provision for impairment was calculated after grouping all the financial assets of similar nature and risk ratings and by calculating the historical payments ratios for the groupings and by assuming that the future payment ratios would be similar to the historical payment ratios.

In determining the recoverability of trade receivables , the municipality considers any change in the credit quality of the debtor from the date the credit was initially granted up to the reporting date. the concentration of credit risk is limited due to the customer base being large and unrelated . Accordingly , the management believe that there is no further credit provision required in excess of the provision for impairment.

# Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|---|---|---|

### 5. Cash and cash equivalents

Cash and cash equivalents consist of:

| | | |
|---|---|---|
| Cash on hand | 1 238 | 113 |
| Bank balances | 3 001 725 | 2 522 444 |
| Short-term deposits | 53 960 720 | 49 861 182 |
| Other cash and cash equivalents | 36 526 | 36 526 |
| | **57 000 209** | **52 420 265** |
| Cash and cash equivalents held by the entity that are available for use . | 57 000 209 | 52 420 265 |

For the purpose of Statement of financial position and the Cash flow statement , cash and cash equivalents includes cash -on hand , cash in banks and investments in money market instruments , net of outstanding overdraft.

The municipality does not have overdrawn current account facilities with its banker and therefore does not incur overdrawn current account . Interest is earned at different rates per annum on favourable balances..

The management of the municipality is of the opinion that the carrying value of the current investment deposits , bank balances and cash and cash equivalents recorded at amortised cost in the annual financial statement approximate their fair value.

The fair value of current investment deposits, bank balances and cash and cash equivalents was determined after considering the standard terms and conditions of agreement entered into between the municipality and the financial institutions.

**The municipality had the following bank accounts**

| Account number / description | Bank statement balances | | | Cash book balances | | |
|---|---|---|---|---|---|---|
| | 30 June 2015 | 30 June 2014 | 30 June 2013 | 30 June 2015 | 30 June 2014 | 30 June 2013 |
| FNB Cheque Account 5255 1036 969 | 2 745 455 | 2 383 297 | 517 783 | 2 762 152 | 2 383 297 | 517 783 |
| FNB Public Sector Cheque Account 6224 5385 093 | 36 513 | 36 526 | 36 838 | 36 513 | 36 526 | 36 838 |
| FNB Salaries Account 6205 1076 688 | 242 329 | 108 237 | 106 838 | 242 329 | 108 237 | 106 838 |
| Stanlib Yield Fund 5511 30458 | 490 321 | 8 727 876 | 8 252 210 | 490 321 | 8 727 876 | 8 252 210 |
| Investec Fixed Deposit 50003450424-1 | - | - | 53 968 997 | - | - | 53 968 997 |
| FNB 32 Days Stimela 7416 5605 518 | 686 876 | 661 765 | 640 986 | 686 876 | 661 765 | 640 986 |
| FNB Money Market 6200 845 2071 | 2 861 877 | 6 591 601 | 4 223 710 | 2 861 877 | 6 591 601 | 4 223 710 |
| Investec Fixed Deposit 442026-452 | - | 8 182 634 | - | - | 8 182 634 | - |
| Investec Fixed Deposit 442026-454 | - | 15 548 653 | - | - | 15 548 653 | - |
| FNB Fixed Deposit 74460230002 | 10 000 000 | 10 148 651 | - | 10 000 000 | 10 148 651 | - |
| Nedbank Call Deposit 7881098635/08 | 10 232 563 | - | - | 10 232 563 | - | - |
| Nedbank Call Deposit 7881098635/09 | 10 117 421 | - | - | 10 117 421 | - | - |
| Investec Bank 442026-454 | 16 365 314 | - | - | 16 365 314 | - | - |
| FNB Fixed Deposit 62544294987 | 1 396 615 | - | - | 1 396 615 | - | - |
| FNB Fixed Deposit 62544297436 | 1 809 734 | - | - | 1 809 734 | - | - |
| **Total** | **56 985 018** | **52 389 240** | **67 747 362** | **57 001 715** | **52 389 240** | **67 747 362** |

### 6. Investment property

| | 2015 | | | 2014 | | |
| --- | --- | --- | --- | --- | --- | --- |
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Investment property | 2 885 000 | - | 2 885 000 | 565 000 | - | 565 000 |

**Reconciliation of investment property - 2015**

| | Opening balance | Additions | Disposals | Total |
| --- | --- | --- | --- | --- |
| Investment property | 565 000 | 2 500 000 | (180 000) | 2 885 000 |

**Reconciliation of investment property - 2014**

| | Opening balance | Transfers | Total |
| --- | --- | --- | --- |
| Investment property | 731 000 | (166 000) | 565 000 |

**Pledged as security**

No investment property is pledged as security

Investment property consists of land held for an undeterminable future use.

**Details of valuation**

Investment property mainly land and vacant stands are stated at fair values , which have been determined based on valuations by  an independent valuer , Mr Mark Jonathan Govender as at 30 June 2015  an industry specialist in valuing these types of properties .Mr Mark Jonathan Govender is the member of Institute of Valuers of South Africa and have appropriate qualifications and experience in the valuation of properties in the relevant location. The valuation which confirms to International Standards of Valuation was arrived at by reference to market evidence of transaction prices for similar properties.

# Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|---|---|---|

### 7. Property, plant and equipment

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated depreciation and accumulated impairment | Carrying value |
| Land | 1 630 000 | - | 1 630 000 | 1 630 000 | - | 1 630 000 |
| Buildings | 10 468 071 | (4 858 386) | 5 609 685 | 9 743 431 | (4 542 591) | 5 200 840 |
| Plant and machinery | 7 434 654 | (1 015 919) | 6 418 735 | 6 673 763 | (622 340) | 6 051 423 |
| Furniture and fixtures | 1 145 344 | (932 207) | 213 137 | 1 241 026 | (919 628) | 321 398 |
| Motor vehicles | 7 664 073 | (3 844 014) | 3 820 059 | 7 664 073 | (2 818 892) | 4 845 181 |
| Office equipment | 1 041 483 | (459 923) | 581 560 | 805 702 | (349 521) | 456 181 |
| Computer equipment | 1 570 323 | (876 919) | 693 404 | 1 467 184 | (626 568) | 840 616 |
| Security measures | 4 770 505 | (836 543) | 3 933 962 | 2 567 043 | (580 539) | 1 986 504 |
| Leased Assets | 547 902 | (75 055) | 472 847 | 359 000 | (203 204) | 155 796 |
| Infrastructure | 59 967 069 | (14 443 924) | 45 523 145 | 46 355 233 | (7 352 480) | 39 002 753 |
| Community | 110 769 811 | (15 103 330) | 95 666 481 | 98 577 714 | (15 438 145) | 83 139 569 |
| Other property, plant and equipment | 6 774 022 | (1 726 599) | 5 047 423 | 6 553 145 | (1 224 123) | 5 329 022 |
| Electricity projects | 5 272 495 | - | 5 272 495 | 10 129 084 | - | 10 129 084 |
| **Total** | **219 055 752** | **(44 172 819)** | **174 882 933** | **193 766 398** | **(34 678 031)** | **159 088 367** |

# Notes to the Annual Financial Statements

Figures in Rand

**7. Property, plant and equipment (continued)**

**Reconciliation of property, plant and equipment - 2015**

| | Opening balance | Additions | Disposals | Transfers | Other changes, movements | Depreciation | Total |
|---|---|---|---|---|---|---|---|
| Land | 1 630 000 | - | - | - | - | - | 1 630 000 |
| Buildings | 5 200 840 | 724 640 | - | - | - | (315 795) | 5 609 685 |
| Plant and machinery | 6 051 423 | 782 048 | (409) | - | - | (414 327) | 6 418 735 |
| Furniture and fixtures | 321 398 | 8 735 | (18 134) | - | - | (98 862) | 213 137 |
| Motor vehicles | 4 845 181 | - | - | - | - | (1 025 122) | 3 820 059 |
| Office equipment | 456 181 | 265 149 | (1 228) | - | (379) | (138 162) | 581 561 |
| Computer equipment | 840 616 | 140 759 | (16 129) | - | (26 752) | (245 090) | 693 404 |
| Security measures | 1 986 504 | 2 203 462 | - | - | - | (256 004) | 3 933 962 |
| Leased Assets | 155 796 | 547 902 | (101 947) | - | - | (128 905) | 472 846 |
| Infrastructure | 39 002 754 | 10 746 886 | - | - | - | (4 226 495) | 45 523 145 |
| Community | 83 139 553 | 15 456 543 | - | - | - | (2 929 615) | 95 666 481 |
| Other property, plant and equipment | 5 329 022 | - | - | - | - | (281 599) | 5 047 423 |
| Electricity projects | 10 129 084 | 8 865 443 | - | (13 722 032) | - | - | 5 272 495 |
| | **159 088 352** | **39 741 567** | **(137 847)** | **(13 722 032)** | **(27 131)** | **(10 059 976)** | **174 882 933** |

## Notes to the Annual Financial Statements

Figures in Rand

### 7. Property, plant and equipment (continued)

**Reconciliation of property, plant and equipment - 2014**

| | Opening balance | Additions | Assets under construction | Disposals | Other changes, movements | Depreciation | Total |
|---|---|---|---|---|---|---|---|
| Land | 1 630 000 | - | - | - | - | - | 1 630 000 |
| Buildings | 5 076 592 | 704 803 | 820 857 | - | - | (1 401 412) | 5 200 840 |
| Plant and machinery | 289 041 | 6 168 362 | - | (43 161) | - | (362 818) | 6 051 423 |
| Furniture and fixtures | 347 486 | 108 239 | - | (1 918) | - | (132 409) | 321 398 |
| Motor vehicles | 2 685 462 | 2 979 890 | - | (8 768) | - | (811 403) | 4 845 181 |
| Office equipment | 287 253 | 261 826 | - | (18 013) | - | (74 885) | 456 181 |
| Computer equipment | 676 441 | 412 052 | - | (15 310) | - | (232 567) | 840 616 |
| Security measures | 322 925 | 1 743 931 | - | - | - | (160 828) | 1 986 504 |
| Leased Assets | 227 367 | - | - | - | - | (71 571) | 155 796 |
| Infrastructure | 34 240 783 | 4 022 332 | 9 485 120 | - | (6 172 912) | (2 572 568) | 39 002 754 |
| Community | 63 861 282 | 9 997 382 | 11 900 106 | (324 497) | 157 930 | (2 452 635) | 83 139 568 |
| Other property, plant and equipment | 5 611 227 | - | - | - | - | (282 205) | 5 329 022 |
| Electricity projects | - | - | - | - | 10 129 084 | - | 10 129 084 |
| | **115 255 859** | **26 398 818** | **22 206 083** | **(411 667)** | **4 114 102** | **(8 555 301)** | **159 088 367** |

**Work in progress**

Included in the additions of the property plant and equipment are the following:

| | | |
|---|---|---|
| Infrastructure assets | 5 410 153 | - |
| Community assets | 9 744 221 | - |
| Other assets | 812 678 | - |
| Eletricity projects | 5 272 494 | - |

Included in other assets is the train and locomotives .

### 8. Intangible assets

| | 2015 | | | 2014 | | |
|---|---|---|---|---|---|---|
| | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value | Cost / Valuation | Accumulated amortisation and accumulated impairment | Carrying value |
| Computer software | 515 833 | (429 621) | 86 212 | 505 581 | (326 801) | 178 780 |

**Reconciliation of intangible assets - 2015**

| | Opening balance | Additions | Amortisation | Impairment loss | Total |
|---|---|---|---|---|---|
| Computer software | 178 780 | 10 252 | (71 619) | (31 200) | 86 212 |

**Reconciliation of intangible assets - 2014**

| | Opening balance | Amortisation | Total |
|---|---|---|---|
| Computer software | 257 978 | (79 198) | 178 780 |

**Restricted title**

All computer software are issued under licence and are restricted to the condition under which each licence are issued.

### 9. Finance lease obligation

| | 2015 | 2014 |
|---|---|---|
| **Minimum lease payments due** | | |
| - within one year | 595 920 | 414 207 |
| - in second to fifth year inclusive | 943 540 | 557 492 |
| | 1 539 460 | 971 699 |
| less: future finance charges | (1 052 494) | (681 591) |
| **Present value of minimum lease payments** | **486 966** | **290 108** |
| | | |
| **Present value of minimum lease payments due** | | |
| - within one year | 66 604 | 52 152 |
| - in second to fifth year inclusive | 420 362 | 237 956 |
| | **486 966** | **290 108** |
| | | |
| Non-current liabilities | 420 462 | 237 957 |
| Current liabilities | 66 504 | 52 152 |
| | **486 966** | **290 109** |

The average lease term is 3 years. The capitalised liabilities are in respect of office equipment leased by the municipality. The lease agreements neither provide the nominal nor the effective interest rates, accordingly, internal rates of return applicable to each lease were determined and accordingly applied to amortise each of the respective lease repayments. Therefore, the average effective borrowing rate is 12%, which is subject to a 15% escalation per annum. The majority of these leases have fixed repayment terms. The agreements do not provide for contingent rental payments.

# Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
| --- | --- | --- |

## 10. Payables from exchange transactions

| | | |
| --- | --- | --- |
| Trade payables | 5 439 952 | 4 795 764 |
| Retention -Contracts | 6 054 357 | 7 177 146 |
| Staff leave accrual | 2 578 683 | 1 252 565 |
| Other payables | 601 807 | 1 959 549 |
| | **14 674 799** | **15 185 022** |

## 11. Unspent conditional grants and receipts

**Unspent conditional grants and receipts comprises of:**

| **Unspent conditional grants and receipts** | | |
| --- | --- | --- |
| Bulwer community services centre | 5 149 852 | - |
| Expanded public works programme(EPWP) | - | 229 564 |
| Sports and Recreation | 150 000 | - |
| KZN Dept of Sports and Recreation (Nkwezela Sports Stadium Grant) | 28 591 | - |
| KZN Co-operative Governance (Pound ) | 265 539 | - |
| | **5 593 982** | **229 564** |

**Movement during the year**

| | | |
| --- | --- | --- |
| Balance at the beginning of the year | 229 564 | 4 852 448 |
| Additions during the year | 40 037 000 | 25 161 000 |
| Income recognition during the year | (34 672 582) | (29 783 884) |
| | **5 593 982** | **229 564** |

Previous year's balance of unspent grants have been reclassified to comply with the Directive issued by Department of Housing . The details of the reclassification on the note on " Comparative information.

See note on government grants and subsidies for reconciliation of grants from National/Provincial Government.

| Figures in Rand | 2015 | 2014 |
|---|---|---|

### 12. Provisions

**Reconciliation of provisions - 2015**

| | Opening Balance | Contribution to landfill site | Total |
|---|---|---|---|
| Environmental rehabilitation | 384 867 | 199 633 | 584 500 |

**Reconciliation of provisions - 2014**

| | Opening Balance | Contribution to landfill site | Total |
|---|---|---|---|
| Environmental rehabilitation | 1 264 307 | (879 440) | 384 867 |

The provision for rehabilitation of refuse disposal sites relates to the legal obligation to rehabilitate the disposal sites. The municipality operates two refuse disposal sites. Both sites have been in operation for nearly ten years and assuming the current level of usage of these disposal sites is maintained, it is anticipated that they will reach full capacity after 2 financial years, wherein they will be permanently closed and thus rehabilitated. The provision amount disclosed represents the present value of future estimated rehabilitation costs (material and labour inclusive of professional environmental expertise). The discount rate used is 10% and 9.5 % and estimated airspace is 6 and 1 years for Bulwer and Creighton respectively .

.

**Long service awards benefits**

| | 2015 | 2014 |
|---|---|---|
| Balance at the beginning of the year | 223 000 | 574 042 |
| Current service cost | 39 000 | 104 972 |
| Interest cost | 19 000 | 41 651 |
| Benefits paid | (27 500) | (25 000) |
| Actuarial gains and losses | 3 500 | (472 665) |
| | **257 000** | **223 000** |

The municipality offers certain employees leave awards that may be exchanged for cash on certain anniversaries of commencing service determined by the length of service

The most recent actuarial valuation of plan assets of long service awards and the present value of the defined benefit obligation were carried out at 30 June 2015 by ZAQ Finance , Fellow of the Actuarial Society of South Africa . The present value of the defined benefit obligation , and the related current service cost and past service cost, were measured using the Projected Credit Method .

**The principal assumptions used for the purpose of actuarial valuations are as follows:**

| | 2015 | 2014 |
|---|---|---|
| Discount rate | 8 % | 7 % |
| CPI( Consumer Price Index) | 6 % | 6 % |
| Normal salary increase rate | 7 % | 7 % |
| Net effective discount rate | 1 % | 1 % |
| | - | - |

**The amount recognised in the Statement of Financial Position are as follows**

| | 2015 | 2014 |
|---|---|---|
| Present value of unfunded obligations | 257 000 | 223 000 |

**The amount recognised in the Statement of Financial Performance are as follows:**

| | 2015 | 2014 |
|---|---|---|
| Current service cost | 39 000 | 104 972 |
| Interest cost | 19 000 | 41 651 |
| Actuarial gains /(Losses) | 3 500 | (472 665) |
| | **61 500** | **(326 042)** |

| Figures in Rand | 2015 | 2014 |
| --- | --- | --- |

### 12. Provisions (continued)

**Movements in the present value of the defined benefit obligation were as follows:**

| | | |
| --- | --- | --- |
| Balance at the beginning of the year | 223 000 | 574 042 |
| Current service cost | 39 000 | 104 972 |
| Interest cost | 19 000 | 41 651 |
| Benefits paid | (27 500) | (25 000) |
| Actuarial gains/( Losses) | 3 500 | (472 665) |
| | **257 000** | **223 000** |

**Movements in the present value of plan assets were as follows:**

| | | |
| --- | --- | --- |
| Contributions from employer | 27 500 | 25 000 |
| Benefits paid | (27 500) | (25 000) |
| | - | - |

**The history of experienced adjustments is as follows:**

| | | |
| --- | --- | --- |
| Present value of obligation | 257 000 | 223 000 |

**Post retirement health care benefits obligations**

| | | |
| --- | --- | --- |
| Balance at the beginning of the year | 1 804 155 | 1 397 624 |
| Current service cost | 221 479 | 160 728 |
| Interest cost | 171 575 | 124 659 |
| Actuarial gains/(Losses) | 117 791 | 121 144 |
| | **2 315 000** | **1 804 155** |

The municipality provide certain post -retirement health care benefits liability by funding the medical aid contribution of qualifying retired members of the municipality . According to the rules of the Medical Aid Funds , with which the municipality is associated , a member (Who is on the current Conditions of service ) is entitled to remain a continued member of such medical aid fund on retirement , in which case the municipality is liable for a certain portion of the medical aid membership fee. The municipality operate an unfunded defined benefit plan for these qualifying employees.

The most recent Actuarial valuations of plan assets and present value of the unfunded defined benefit obligation were carried out at 30 June 2015 by ZAQ Consultants and Actuaries , a fellow of the Faculty of Actuaries and Fellow of Actuarial Society of South Africa. The present value of the defined benefit obligation , and the related current service costs and past service costs were measured using the Projected Unit Credit Method.

**The members of the post -employment benefit plan are made up as follows:**

| | | |
| --- | --- | --- |
| In-service members(Members) | 55 | 44 |
| In-service members( Non-members) | - | 66 |
| | **55** | **110** |

**The liability in respect of past service has been estimated as follows:**

| | | |
| --- | --- | --- |
| In-service members( Members) | 2 315 000 | 1 274 137 |
| In-service members(Non-members) | - | 530 018 |
| | **2 315 000** | **1 804 155** |

The municipality makes monthly contributions for health care arrangements to the following Medical Aid Schemes.

- Key Health , Samwumed and LA Health.

**The principal assumptions used for the purposes of the actuarial valuations were as follows:**

**Assumptions used at the reporting date (% )**

| | | |
| --- | --- | --- |
| Health care cost inflation | 9 | 9 |
| Expected inflation | 7 | 7 |

# Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|---|---|---|
| **12. Provisions (continued)** | | |
| Discount rate | 9 | 10 |
| Salary inflation | 1 | 1 |
| | - | - |

**The amount recognised in the statement of financial position is as follows:**

| | | |
|---|---|---|
| **Carrying amount** | | |
| Present value of unfunded obligations | 2 315 000 | 1 804 155 |

**The amount recognised in the statement of financial performance**

| | | |
|---|---|---|
| Current service cost | 221 479 | 160 728 |
| Interest cost | 171 575 | 124 659 |
| Actuarial gains/(Losses) | 117 791 | 121 144 |
| **Total included in employee related costs** | **510 845** | **406 531** |

**Movement in the present value of the defined benefit obligation were as follows:**

| | | |
|---|---|---|
| Balance at the beginning of the year | 1 804 155 | 1 397 624 |
| Current service cost | 221 479 | 160 728 |
| Interest cost | 171 575 | 124 659 |
| Actuarial gains/(Losses) | 117 791 | 121 144 |
| | **2 315 000** | **1 804 155** |

**13. Service charges**

| | | |
|---|---|---|
| Refuse removal | 566 489 | 524 198 |

## Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|---|---|---|

### 14. Property rates

**Rates received**

| | | |
|---|---|---|
| Residential | 673 401 | 661 816 |
| Commercial | 969 749 | 1 353 858 |
| State | 1 013 955 | 887 590 |
| Small holdings and farms | 45 590 | 43 172 |
| PSI | 19 615 | 15 750 |
| Farms | 2 214 443 | 2 231 389 |
| | 4 936 753 | 5 193 575 |
| Property rates - penalties imposed | 164 630 | 253 195 |
| | **5 101 383** | **5 446 770** |

**Valuations**

| | | |
|---|---|---|
| Business and Commercial | 71 279 000 | 68 033 000 |
| Industrial | 2 130 000 | 2 130 000 |
| Residential | 58 536 000 | 86 227 000 |
| State owned | 23 670 000 | 244 042 000 |
| State trust land | 208 306 000 | 207 396 000 |
| Educational | 230 887 000 | 1 350 000 |
| Farm (Agricultural) | 797 856 299 | 780 294 799 |
| Small holdings agricultural | 170 000 | 28 941 500 |
| PSI | 4 458 000 | 4 558 000 |
| Municipal | 33 617 000 | 26 648 000 |
| Places of Worship | 27 658 000 | 39 517 000 |
| Public Benefit Organisations | 21 181 000 | 4 515 000 |
| MUL- Mulitple Use | 2 100 000 | 2 484 000 |
| Residential ( Lower Use) | 27 534 000 | 11 864 000 |
| | **1 509 382 299** | **1 508 000 299** |

Valuation of properties within the boundaries of the Municipal area are performed five years. The current valuation in use came into effect on 1 July 2013 Interim valuations are carried out to take account of changes in individual property values due to subdivisions, property improvements etc.

## Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
| --- | --- | --- |

### 15. Government grants and subsidies

| | | |
| --- | --- | --- |
| **Operating grants** | | |
| Equitable share | 66 024 814 | 56 996 141 |
| National Dept of Treasury (Municipal Systems Improvement Grant) | 934 001 | 890 001 |
| National Dept of Treasury (Financial Management Grant) | 1 800 001 | 1 650 000 |
| KZN Dept of Sports and Recreation ( Kilmon and Nkwezela ) | 646 407 | 1 050 000 |
| National Dept of Treasury (Expanded Public Works Programme) | 1 229 565 | 770 436 |
| KZN Dept of Co-Operative Governnance (Property Rates) | - | 29 988 |
| KZN Dept of Arts and Culture (Libraries) | 981 000 | 939 000 |
| National Dept of Energy ( Donnybrooke & Xosheyakhe) | 5 000 000 | 196 599 |
| KZN COGTA ( Pound Grant) | 734 461 | - |
| | 77 350 249 | 62 522 165 |
| **Capital grants** | | |
| National Dept of Treasury (Municipal Infrastructure Grant) | 23 497 000 | 26 276 849 |
| | 23 497 000 | 26 276 849 |
| | **100 847 249** | **88 799 014** |

**Equitable Share**

In terms of the Constitution, this grant is used to subsidise the provision of basic services to indigent community members.

| Figures in Rand | 2015 | 2014 |
| --- | --- | --- |

### 15. Government grants and subsidies (continued)

**National Dept of Treasury( Municipal Systems Improvement Grant)**

| | | |
| --- | --- | --- |
| Current-year receipts | 934 000 | 890 000 |
| Conditions met - transferred to revenue | (934 000) | (890 000) |
| | - | - |

This grant is used to capacitate the IDP /PMS Department of the municipality . Condtions of the grant have been met. There was no delay or withholding of the grant..

**Finance Management Grant ( FMG)**

| | | |
| --- | --- | --- |
| Current-year receipts | 1 800 000 | 1 650 000 |
| Conditions met - transferred to revenue | (1 800 000) | (1 650 000) |
| | - | - |

This grant is used to finance sound financial management and to pay salaries for the interns. Conditions of the grants have been met..

**Dept of Sports and Recreation ( Kilmon and Nkwezela)**

| | | |
| --- | --- | --- |
| Current-year receipts | 825 000 | 1 050 000 |
| Conditions met - transferred to revenue | (646 407) | (1 050 000) |
| | **178 593** | - |

The grant was used to subsidise the costs of running the Kilmon Horse Racing and Nkwezela sports ground. Certain conditions of the grant have been met. There was no delay or withholding of the grant.

**KZN Dept of Arts and Culture (Librarian Subsidy)**

| | | |
| --- | --- | --- |
| Current-year receipts | 981 000 | 939 000 |
| Conditions met - transferred to revenue | (981 000) | (939 000) |
| | - | - |

This grant was used to subsidise the cost of running the library . Conditions of the grants have been met .There was no delay or withholding of the grant..

**National Dept of Treasury( Municipal Infrastructure Grant)**

| | | |
| --- | --- | --- |
| Balance unspent at beginning of year | - | 4 655 849 |
| Current-year receipts | 23 497 000 | 21 621 000 |
| Conditions met - transferred to revenue | (23 497 000) | (26 276 847) |
| | - | - |

This grant was used to subsidise the cost of building infrastructure .Conditions of the grant have been met . There was no delay or withholding of the grant.

**Expanded Public Works Programme(EPWP)**

| | | |
| --- | --- | --- |
| Balance unspent at beginning of year | 229 565 | - |
| Current-year receipts | 1 000 000 | 1 000 000 |
| Conditions met - transferred to revenue | (1 229 565) | (770 435) |
| | - | **229 565** |

| Figures in Rand | 2015 | 2014 |
|---|---|---|

**15. Government grants and subsidies (continued)**

The grant is utilised for creating of job opportunities in environmental and cultural,infrastructure and the social eradication of poverty and capacity building and skills programmes. Conditions of the grant have been met . There was no delay or withholding of the grant.

**National Dept of Energy (Electrification - Donnybrooke and Xosheyakhe)**

| | | |
|---|---|---|
| Balance unspent at beginning of year | - | 196 599 |
| Current-year receipts | 5 000 000 | - |
| Conditions met - transferred to revenue | (5 000 000) | (196 599) |
| | **-** | **-** |

This grant was used to subsidise the cost of providing electricity . Conditions of the grant have been met. There was no delay of withholding of the grant..

**KZN Dept of Co-operative Governance andTraditional Affairs (Corridor development )**

| | | |
|---|---|---|
| Current-year receipts | - | 30 000 |
| Conditions met - transferred to revenue | - | (30 000) |
| | **-** | **-** |

This grant was used to subsidise the cost of corridor development . There was no delay or withholding of the grant.

**KZN Department of COGTA ( Pound Grant)**

| | | |
|---|---|---|
| Current-year receipts | 1 000 000 | - |
| Conditions met - transferred to revenue | (734 461) | - |
| | **265 539** | **-** |

This grant was used to subsidise the cost of running the animal pound . Certain conditions of the grant have been met . There was no delay or withholding of the grant.

**Bulwer Service Centre**

| | | |
|---|---|---|
| Current-year receipts ( Transferred to unspent grant ) | 5 149 852 | - |

In terms of the Constitution, this unconditional grant is used primarily to subsidise the provision of basic services to the community. All registered indigents receive a monthly subsidy towards the cost of basic services, which is funded from this grant. .

**16. Other revenue**

| | | |
|---|---|---|
| Other revenue | 3 055 120 | 367 314 |

| | | |
|---|---|---|
| **The amount included in other revenue arising from exchanges of goods or services are as follows:** | | |
| Tender documents | 369 056 | 274 217 |
| Sundry income | 2 528 816 | 73 614 |
| Pound income | 157 248 | 19 482 |
| | **3 055 120** | **367 315** |

The following other revenue items for previous years have been grouped together as sundry income due to them being immaterial and to comply with GRAP 1 requirements. Printing materials , Rates clearance certificates, commission received and sale of hay . No adjustment has been made .

Included in sundry income is the R2 million donation from the Department of Human Settlements.

# Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|---|---|---|

### 17. Interest received

| | | |
|---|---|---|
| **Interest revenue** | | |
| Investment Revenue | 3 771 904 | 3 936 313 |
| Interest charged on trade and other receivables | 15 755 | 6 065 |
| | **3 787 659** | **3 942 377** |

### 18. Employee related costs

| | | |
|---|---|---|
| Salaries and Wages | 20 435 757 | 17 963 479 |
| Bonus | 1 249 697 | 1 532 269 |
| Contributions for Medical Aid,Pension and UIF | 3 640 729 | 3 074 039 |
| Leave pay provision charge | 1 060 305 | 1 364 097 |
| Travel and Standby Allowances | 852 717 | 836 105 |
| Overtime payments | 153 783 | 179 194 |
| Provision for long service awards | 544 845 | 55 489 |
| Housing benefits and other employee related costs | 787 202 | 78 478 |
| | **28 725 035** | **25 083 151** |

**Remuneration of Municipal Manager**

| | | |
|---|---|---|
| Annual Remuneration | 650 483 | 592 936 |
| Car, Housing and Other Allowances | 240 000 | 240 000 |
| Contributions to UIF, Medical and Pension Funds | 161 968 | 152 517 |
| | **1 052 451** | **985 453** |

**Remuneration of Chief Finance Officer**

| | | |
|---|---|---|
| Annual Remuneration | 527 048 | 320 120 |
| Car , Housing and Other Allowances | 297 460 | 185 912 |
| Contributions to UIF, Medical and Pension Funds | 27 370 | 13 431 |
| | **851 878** | **519 463** |

**Remuneration of IPD Manager**

| | | |
|---|---|---|
| Annual Remuneration | 658 314 | 720 060 |
| Car ,Housing and Other Allowances | 157 343 | 44 056 |
| Contributions to UIF, Medical and Pension Funds | 36 924 | 34 406 |
| | **852 581** | **798 522** |

**Remuneration of Corporate Services Manager**

| | | |
|---|---|---|
| Annual Remuneration | 721 792 | 720 060 |
| Car, Housing and Other Allowances | 120 000 | 44 056 |
| Contributions to UIF, Medical and Pension Funds | 10 641 | 34 406 |
| | **852 433** | **798 522** |

**Remuneration of Community Manager**

| | | |
|---|---|---|
| Annual Remuneration | 110 299 | 608 269 |
| Car Allowance | 30 000 | 180 000 |
| Contributions to UIF, Medical and Pension Funds | 1 603 | 9 824 |
| | **141 902** | **798 093** |

## Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
| --- | --- | --- |

### 19. Remuneration of Councillors

| | | |
| --- | --- | --- |
| Mayor | 672 763 | 658 394 |
| Deputy Mayor | 538 210 | 531 457 |
| Speaker | 538 210 | 531 457 |
| Executive Committee Members | 925 049 | 999 446 |
| Councillors | 4 028 354 | 3 728 750 |
| | **6 702 586** | **6 449 504** |

**In-kind benefits**

The Mayor, Deputy Mayor, Speaker and two Exco member are full-time. Each of them are provided with an office and secretarial support at the cost of the municipality. Councillors were paid within the Upper Limits envisaged in section 219 of the constitution. The Mayor , Deputy Mayor and Speaker are provided with municipal vehicles at the cost to the council.

### 20. Depreciation and amortisation

| | | |
| --- | --- | --- |
| Property, plant and equipment | 10 060 561 | 8 555 301 |
| Intangible assets | 71 619 | 79 467 |
| | **10 132 180** | **8 634 768** |

### 21. Finance Costs

| | | |
| --- | --- | --- |
| Interest paid to creditors | - | 63 028 |
| Interest paid on finance leases | 465 538 | 339 652 |
| | **465 538** | **402 680** |

### 22. Contracted services

| | | |
| --- | --- | --- |
| Security Services | 1 233 497 | 1 312 827 |

# Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|---|---|---|

### 23. General expenses

| | | |
|---|---|---|
| Accounting fees | 841 098 | 351 475 |
| Advertising | 570 008 | 466 425 |
| Auditor fees External | 1 105 306 | 980 052 |
| Cleaning | 330 912 | 314 287 |
| Ward Commitee Expense | 887 504 | 689 140 |
| Catering | 207 347 | 212 596 |
| Consultants fees | 1 092 624 | 1 809 154 |
| Ward commiteee capacitating training | - | 745 156 |
| Catering | 310 518 | 385 984 |
| Staff bursaries | 293 729 | - |
| Electrification Junction,Sokhela | - | 256 902 |
| Insurance | 689 350 | 571 067 |
| Community functions | 770 860 | 835 476 |
| Arts and Culture | 785 266 | 276 434 |
| Poverty Alleviation | 197 236 | 245 884 |
| Public Participation | 414 998 | 747 943 |
| Municipal Relief Fund | 96 100 | 122 499 |
| Electrification Phase 2 | - | 305 |
| IDP review | - | 1 111 665 |
| Curator Housing Centocow gallery | - | 208 822 |
| Internal audit | 726 460 | 1 211 656 |
| Youth Development | 305 834 | 457 606 |
| Fuel and oil | 1 263 962 | 1 175 990 |
| HIV/AIDS expenses | 109 567 | 53 200 |
| Printing and stationery | 876 219 | 665 100 |
| Protective clothing | 91 594 | 203 892 |
| LED Strategy | 404 046 | 245 928 |
| Special Programs | 473 685 | 788 843 |
| Bhengu Art Gallery & Museum | - | 1 079 914 |
| Anti- Corruption Measures | 168 250 | 126 635 |
| Newspapers | 37 723 | 607 071 |
| Telephone | 1 120 857 | 1 222 490 |
| Organisational Structure | - | 138 224 |
| Councillors training | 551 358 | 108 407 |
| Electricity | 734 655 | 648 921 |
| Legal Expenses | 65 826 | 136 076 |
| Electrification | - | 8 886 718 |
| Educational support | 682 435 | 689 345 |
| Tolls and Parking | - | 150 000 |
| Emasameni electrification Project | - | 163 265 |
| Free Basic Electricty | 1 187 339 | 560 285 |
| Staff travelling, accomodation & travelling | 4 100 129 | 3 267 749 |
| Cont. disaster recovery | 306 293 | 142 502 |
| Mayoral Cup | 503 543 | 204 900 |
| Sundry Expenses | 5 367 197 | (7 725 037) |
| Sports Development | 453 705 | 274 066 |
| | **28 123 533** | **25 815 012** |

### 24. Auditors' remuneration

| | | |
|---|---|---|
| Fees | 1 105 306 | 980 052 |

# Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|---|---|---|

## 25. Cash generated from operations

| | | |
|---|---|---|
| Surplus | 18 965 470 | 25 601 717 |
| **Adjustments for:** | | |
| Depreciation and amortisation | 10 132 180 | 8 634 768 |
| Loss on sale of assets | 204 403 | 199 255 |
| Impairment loss ( Assets) | 418 800 | 425 754 |
| Debt impairment | 1 345 922 | - |
| Electricity projects (Eskom) | - | (10 129 084) |
| Movements in provisions | (744 487) | (879 439) |
| Interest earned | (23 503) | - |
| Leave pay provision movements | (1 326 000) | - |
| Non-cash items ( Electricity ) | 13 722 032 | - |
| Bonus provision | 533 621 | - |
| **Changes in working capital:** | | |
| Trade and Other Receivables from exchange transactions | (720 735) | 957 874 |
| Other receivables from non-exchange transactions | (331 868) | (15 126) |
| Payables from exchange transactions | (1 836 223) | 6 674 895 |
| VAT | (1 104 258) | 190 018 |
| Unspent conditional grants and receipts | 5 364 409 | (4 622 875) |
| | **44 599 763** | **27 037 757** |

## 26. Commitments

**Authorised capital expenditure**

| | | |
|---|---|---|
| **Already contracted for but not provided for** | | |
| • Infrastructure assets | 2 646 435 | 4 903 361 |
| • Community assets | 7 749 508 | 8 092 042 |
| • Other assets | 4 072 360 | 3 007 702 |
| | **14 468 303** | **16 003 105** |

| | | |
|---|---|---|
| **Total capital commitments** | | |
| Already contracted for but not provided for | 14 468 303 | 16 003 105 |

This committed expenditure relates to plant and equipment and will be financed by internally generated funds and government grants

**Operating commitments**

| | | |
|---|---|---|
| General expenses | 362 111 | 229 089 |
| Repairs and maintenance | 3 214 204 | 145 000 |
| Consultants | 418 408 | 151 050 |
| | **3 994 723** | **525 139** |

## 27. Unauthorised expenditure

| | | |
|---|---|---|
| Opening balance | 5 632 898 | 4 100 009 |
| Unauthorised expenditure - Current year | 6 018 053 | 5 632 898 |
| Unauthorised expenditure condoned | (5 632 898) | (4 100 009) |
| | **6 018 053** | **5 632 898** |

The adjusted budget has been exceeded by the following amounts.

- Depreciation and amortisation (R4 035 180
- Impairment Loss (R418 800
- Grants and subsidies (R455 748)

# Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|---|---|---|

### 27. Unauthorised expenditure (continued)

- Bad Debts (R903 922
- Loss on sale of assets ( R204 403)

A detailed report will be prepared and submitted to council to condone the unauthorised expenditure

### 28. Fruitless and wasteful expenditure

| | | |
|---|---|---|
| Opening balance | 63 572 | 63 572 |
| Fruitless and Wasteful expenditure - Current year | 59 418 | - |
| Condoned by Council | (63 572) | - |
| | **59 418** | **63 572** |

The fruitless and wasteful expenditure relates to overpayment of bonus and leave payment amounting to R44 525 and R14 893 respectively . All the necessary MFMA processes regarding the fruitless and wasteful expenditure will be followed.

### 29. Irregular expenditure

| | | |
|---|---|---|
| Opening balance | 713 963 | 29 329 746 |
| Irregular expenditure - Current year | 11 447 406 | 7 009 679 |
| Condoned / written off by Council | (713 963) | (35 625 462) |
| | **11 447 406** | **713 963** |

**Details of irregular expenditure – current year**

| | Disciplinary steps taken/criminal proceedings | |
|---|---|---|
| Various awards amounting to R102 580 were made to persons in service of the state . This resulted in irregular expenditure . | A detailed report will be forwarded to Council for condonement | 102 580 |
| Awards amounting to R3 198 791 were made to bidders above CIDB registration categories .This resulted in contravention of the Supply Chain Management (SCM ) Policy. | A detailed report will be forwarded to Council for condonement | 3 198 791 |
| An award amounting to R2 442 831 was made to the supplier who did not score highest point during the evaluation processes. | A detailed report will be forwarded to council for condonement | 2 442 831 |
| There was an extention of scope regarding the various services and this resulted in contravention of the SCM Policy. | A detailed report will be tabled to council for condonement | 5 664 385 |
| SCM regulations and Policy was not followed for the appointment of the Municipal Managers bodygurads at R28 894 which resulted in contravention of SCM Policy . | A detailed report will be tabled to council for condonement | 28 894 |
| Only one quotation were received for the tent hire and chairs for Nkwezela Funeral . The amount paid was R9 925 . This resulted in contravention of SCM Policy and Regulations. | A detailed report will be tabled to council for condonement | 9 925 |
| | | **11 447 406** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|---|---|---|

## 30. Employee benefit obligations

### Defined contribution plan

Ingwe Municipality provides retirement benefits to all its employees and councillors ,who belong to different pension schemes .Councillors have the option to belong to the Pension Fund for Municipal Councillors.

The municipality is under no obligation to cover any unfunded benefits.

### Joint pension fund

All full time employees belong to the KwaZulu Natal Joint Municipal Pension Fund , which are made up by the Super Annuation and Provident Funds. These funds are governed by Pension Fund Act and include both defined benefit and defined contribution schemes.

Super annuation Fund is a multi-employer plans and is subject to either a tri -annual , bi-annual or annual actuarial valuation , the details of which are provided below.

Sufficient information is not available to use defined benefit accounting for the pension funds , due due to the following reasons:

(i) The assets of each fund are held in one portfolio and are not notionally allocated to each of the participating municipality.

(ii) One set of financial statements are compiled for each fund and financial statements are not drafted for each participating municipality.

(iii) The same rate of contribution applies to all participating municipalities and no regard is paid to difference in the membership distribution of the participating municipalities.

It is therefore seen that each fund operates as a single entity and is not divided into sub -funds for each participating municipality.

The only obligation of the municipality with respect to the retirement benefits plans is to make the specified contributions. Where Councillors /Employees leave the plans prior to full vesting of the contributions , the contributions payable by the municipality are reduced by the amount of forfeited contributions.

## 31. Additional disclosure in terms of Municipal Finance Management Act

### Contributions to organised local government

| | | |
|---|---|---|
| Current year subscription | 500 000 | 450 000 |

### Audit fees

| | | |
|---|---|---|
| Current year | 1 105 306 | 980 052 |
| Amount paid - current year | (1 105 306) | (980 052) |
| | - | - |

### PAYE and UIF

| | | |
|---|---|---|
| Opening balance | 338 391 | - |
| Current year subscription / fee | 4 875 261 | 4 432 348 |
| Amount paid - current year | (5 379 411) | (4 093 957) |
| **Balance unpaid (Included in creditors)** | **(165 759)** | **338 391** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|---|---|---|

### 31. Additional disclosure in terms of Municipal Finance Management Act (continued)

**Pension and Medical Aid Deductions**

| | | |
|---|---|---|
| Opening balance | 504 400 | 22 789 |
| Payroll deductions | 6 334 524 | 5 396 137 |
| Amount paid - current year | (6 837 585) | (4 914 526) |
| **Balance unpaid ( Included in creditors)** | **1 339** | **504 400** |

**VAT**

| | | |
|---|---|---|
| VAT receivable | 2 859 365 | 1 755 107 |

The net of VAT input payables and VAT output receivables are shown in note 3 .All VAT returns have been submitted by the due date throughout the year.

**Councillors' arrear consumer accounts**

The following Councillor had arrear accounts outstanding for more than 90 days during the year under review. The amount owing was subsequently paid in July 2015.

| 30 June 2015 | Outstanding less than 90 days R | Outstanding more than 90 days R | Total R |
|---|---|---|---|
| Councillor Luzulane | - | 8 773 | 8 773 |

### 32. SCM Deviations

| | | |
|---|---|---|
| **Details of section 36** | | |
| Sole supplier of the product | 371 325 | 102 642 |
| Emergencies | 303 795 | 105 606 |
| Urgent repairs and maintenance | 13 700 | - |
| Extension of scope | 8 949 | - |
| | **1 395 538** | **208 248** |

# Notes to the Annual Financial Statements



## 33. Risk management

### Financial risk management

The municipality’s activities expose it to a variety of financial risks: market risk (including currency risk, fair value interest rate risk, cash flow interest rate risk and price risk), credit risk and liquidity risk.

The municipality’s overall risk management program focuses on the unpredictability of financial markets and seeks to minimise potential adverse effects on the municipality’s financial performance.

The Directorate : Budget and Treasury Office monitors and manages the financial riks related to operations through internal policies and procedures . These risks include interest rate risks , credit risks and liquidty. Compliance with policies and procedures is reviewed continuously by the internal auditors and annual by external auditors. The municipality does not enter into or trade financial instruments for speculative purposes.

Internal auditors responsible for initiating a control framework and monitoring and responding to potential risks , reports to the municipality's audit committee , an independent body that monitors the effectiveness of the internal audit.

### Liquidity risk

Prudent liquidity risk management implies maintaining sufficient cash and marketable securities, the availability of funding through an adequate amount of committed credit facilities and the ability to close out market positions. Due to the dynamic nature of the underlying businesses, municipality treasury maintains flexibility in funding by maintaining availability under committed credit lines.

The municipality’s risk to liquidity is a result of the funds available to cover future commitments. The municipality manages liquidity risk through an ongoing review of future commitments and credit facilities.

Cash flow forecasts are prepared and adequate utilised borrowing facilities are monitored.

The table below analyses the municipality’s financial liabilities and net-settled derivative financial liabilities into relevant maturity groupings based on the remaining period at the statement of financial position to the contractual maturity date. The amounts disclosed in the table are the contractual undiscounted cash flows. Balances due within 12 months equal their carrying balances as the impact of discounting is not significant.

| **30 June 2015, Maturity profile** | Less than 1 year | Between 1 and 5 years | Over 5 years | Total |
|---|---|---|---|---|
| Finance lease obligations | 52 134 | 203 174 | - | 255 308 |
| Trade payables | 14 674 799 | - | - | 14 674 799 |
| Subtotal | 14 726 933 | 203 174 | - | 14 930 107 |
| | **14 726 933** | **203 174** | **-** | **14 930 107** |

| **30 June 2014, Maturity profile** | Less than 1 year | Between 1 and 5 years | Over 5 years | Total |
|---|---|---|---|---|
| Finance lease obligations | 52 134 | 237 956 | - | 290 090 |
| Trade payables | 15 718 645 | - | - | 15 718 645 |
| Subtotal | 15 770 779 | 237 956 | - | 16 008 735 |
| | **15 770 779** | **237 956** | **-** | **16 008 735** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
| --- | --- | --- |

## 33. Risk management (continued)

**Credit risk**

Credit risk consists mainly of cash deposits, cash equivalents, derivative financial instruments and trade debtors. The municipality only deposits cash with major banks with high quality credit standing and limits exposure to any one counter-party.

Trade receivables comprise a widespread customer base. Management evaluated credit risk relating to customers on an ongoing basis. If customers are independently rated, these ratings are used. Otherwise, if there is no independent rating, risk control assesses the credit quality of the customer, taking into account its financial position, past experience and other factors. Individual risk limits are set based on internal or external ratings in accordance with limits set by the board. The utilisation of credit limits is regularly monitored. Sales to retail customers are settled in cash or using major credit cards. Credit guarantee insurance is purchased when deemed appropriate.

Financial assets exposed to credit risk at year end were as follows:

| | | |
| --- | --- | --- |
| **Financial instruments** | | |
| Receivables from non-exchange transactions | 930 067 | 598 199 |
| Receivables from exchange transactions | 1 168 668 | 447 933 |
| Bank, cash and cash equivalents | 57 000 209 | 52 420 265 |
| | **59 098 944** | **53 466 397** |

**Interest rate**

**Interest rate risk**

As the municipality has no significant interest-bearing assets, the municipality’s income and operating cash flows are substantially independent of changes in market interest rates.

The municipality analyses its interest rate exposure on a dynamic basis. Various scenarios are simulated taking into consideration refinancing, renewal of existing positions, alternative financing and hedging. Based on these scenarios, the municipality calculates the impact on surplus and deficit of a defined interest rate shift. For each simulation, the same interest rate shift is used for all currencies.

The municipality’s interest rate risk arises from short term investments. Investments are made at variable rates and are exposed to cash flow interest rate risk.

At year end, financial instruments exposed to interest rate risk were as follows:

- Call deposits
- Notice deposits

**Market risk**

The municipality's activities expose it primarily to the financial risk of changes in interest rates . No formal policy exists to hedge volatilities in the interest rate market.

## 34. Prior period errors

During the year it was discovered that the municipality has expensed the electrifcation project incorrectly in 2014 , whereas these projects should have been capitalised. Furthermore community assets were not properly accounted for in prior year .This resulted in the prior year balance of property plant and equipment and accumulated surplus of prior year being restated . The details of the restatement is as follows:

| Figures in Rand | 2015 | 2014 |
|---|---|---|

### 34. Prior period errors (continued)

| | | |
|---|---|---|
| **Property plant and equipment** | | |
| Balance of previously published as per AFS 30 June 2014 | - | 148 737 621 |
| Community assets not properly accounted for | - | 222 421 |
| Electrification projects capitalisation | - | 10 129 084 |
| **Balance now published as per AFS 30 June 2014** | **-** | **159 089 126** |

During the year it was discovered that the 2014 bonus provision was not correctly accounted for in the accouting records of the municipality . This resulted in the prior year balances of trade payables and accumulated surplus being affected . The details are as follows :

| | | |
|---|---|---|
| **Trade payables** | | |
| Balance previously published as per AFS 30 June 2014 | - | 15 718 645 |
| Bonus provision not correctly accounted for | - | 533 621 |
| **Balance now published as per AFS 30 June 2014** | **-** | **16 252 266** |

The above errors in electricity projects not correctly accounted for resulted in the surplus of the previous year being affected and the details are as follows :

| | | |
|---|---|---|
| **Surplus** | | |
| Surplus previously published as per AFS 30 June 2014 | - | 15 472 634 |
| Electricity projects not accounted for previously | - | (10 129 084) |
| **Surplus now published as per AFS 30 June 2014** | **-** | **5 343 550** |

The above errors in property plant and equipment and Trade payables resulted in the accumulated surplus being restated as follows:

| | | |
|---|---|---|
| **Accumulated Surplus** | | |
| Balance previously published as per AFS 30 June 2014 | - | 183 775 233 |
| Electrification projects capitalisation | - | 10 129 084 |
| PPE not correctly accounted for | - | 222 421 |
| Trade payables | - | (761) |
| Bonus provision | - | 533 621 |
| **Balance now published as per AFS 30 June 2014** | **-** | **194 659 598** |

### 35. Revenue

| | | |
|---|---|---|
| Service charges | 566 489 | 524 198 |
| Rental of facilities and equipment | 280 203 | 295 553 |
| Other income - (rollup) | 3 055 120 | 367 314 |
| Interest received | 3 787 659 | 3 942 378 |
| Property rates | 4 936 753 | 5 193 575 |
| Property rates - penalties imposed | 164 630 | 253 195 |
| Government grants & subsidies | 100 847 258 | 88 799 014 |
| Public contributions and donations | 611 000 | 708 878 |
| | **114 249 112** | **100 084 104** |

| | | |
|---|---|---|
| **The amount included in revenue arising from exchanges of goods or services are as follows:** | | |
| Service charges | 566 489 | 524 198 |
| Rental of facilities and equipment | 280 203 | 295 553 |
| Other income - (rollup) | 3 055 120 | 367 314 |
| Interest received | 3 787 659 | 3 942 378 |
| | **7 689 471** | **5 129 443** |

# Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|---|---|---|

### 35. Revenue (continued)

| | | |
|---|---|---|
| **The amount included in revenue arising from non-exchange transactions is as follows:** | | |
| **Taxation revenue** | | |
| Property rates | 4 936 753 | 5 193 575 |
| Property rates - penalties imposed | 164 630 | 253 195 |
| **Transfer revenue** | | |
| Government Grants and Subsidies | 100 847 258 | 88 799 014 |
| Public contributions and donations | 611 000 | 708 878 |
| | **106 559 641** | **94 954 662** |

### 36. Related parties

Relationships

| | | |
|---|---|---|
| **Compensation to accounting officer and other key management** | | |
| Accounting Officer and Other Key Management | 3 751 245 | 3 946 672 |
| Councillors | 6 621 765 | 6 388 782 |
| | **10 373 010** | **10 335 454** |

### 37. Changes in accounting policy

There is no change in accounting policy in the year under review.

### 38. Capital expenditure approved not yet contracted for

| | | |
|---|---|---|
| Infrastructure assets | 16 008 558 | 7 237 784 |
| Community assets | 61 897 057 | 38 084 000 |
| Other assets | 8 243 654 | 3 370 000 |
| | **86 149 269** | **48 691 784** |

The capital expenditure approved and not yet contracted for will be financed from capital government grants and internal funds.

# Notes to the Annual Financial Statements

### 39. New standards and interpretations

#### 39.1 Standards and interpretations issued, but not yet effective

The municipality has not applied the following standards and interpretations, which have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2015 or later periods:

#### 39.2 Standards and interpretations not yet effective

The following standards and interpretations have been published and are mandatory for the municipality's accounting periods beginning on or after 01 July 2015 or later periods but are not relevant to its operations:

**GRAP 18: Segment Reporting**

Segments are identified by the way in which information is reported to management, both for purposes of assessing performance and making decisions about how future resources will be allocated to the various activities undertaken by the municipality. The major classifications of activities identified in budget documentation will usually reflect the segments for which an entity reports information to management.

Segment information is either presented based on service or geographical segments. Service segments relate to a distinguishable component of an entity that provides specific outputs or achieves particular operating objectives that are in line with the municipality's overall mission. Geographical segments relate to specific outputs generated, or particular objectives achieved, by an entity within a particular region.

This Standard has been approved by the Board but its effective date has not yet been determined by the Minister of Finance. The effective date indicated is a provisional date and could change depending on the decision of the Minister of Finance.

Directive 2 - Transitional provisions for public entities, municipal entities and constitutional institutions, states that no comparative segment information need to be presented on initial adoption of this Standard.

Directive 3 - Transitional provisions for high capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have no been recognised as a result of transitional provisions under the Standard of GRAP on Property, Plant and Equipment, recognition requirements of this Standard would not apply to such items until the transitional provision in that Standard expires.

Directive 4 – Transitional provisions for medium and low capacity municipalities states that no comparative segment information need to be presented on initial adoption of the Standard. Where items have not been recognised as a result of transitional provisions un the Standard of GRAP on Property, Plant and Equipment and the Standard of GRAP on Agriculture, the recognition requirements of the Standard would not apply to such items until the transitional provision in that standard expires.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

The adoption of this standard is not expected to impact on the results of the municipality, but may result in more disclosure than is currently provided in the annual financial statements.

**GRAP 105: Transfers of functions between entities under common control**

The objective of this Standard is to establish accounting principles for the acquirer and transferor in a transfer of functions between entities under common control. It requires an acquirer and a transferor that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying the acquirer and transferor, Determining the transfer date, Assets acquired or transferred and liabilities assumed or relinquished, Accounting by the acquirer and transferor, Disclosure, Transitional provisions as well as the Effective date of the standard.

## Notes to the Annual Financial Statements

**39. New standards and interpretations (continued)**

The effective date of the standard is for years beginning on or after 01 April 2015

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

The municipality is unable to reliably estimate the impact of the amendment on the annual financial statements.

**GRAP 106: Transfers of functions between entities not under common control**

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

The municipality is unable to reliably estimate the impact of the amendment on the annual financial statements.

**GRAP 107: Mergers**

The objective of this Standard is to establish accounting principles for the acquirer in a transfer of functions between entities not under common control. It requires an entity that prepares and presents financial statements under the accrual basis of accounting to apply this Standard to a transaction or other event that meets the definition of a transfer of functions. It includes a diagram and requires that entities consider the diagram in determining whether this Standard should be applied in accounting for a transaction or event that involves a transfer of functions or merger.

It furthermore covers Definitions, Identifying a transfer of functions between entities not under common control, The acquisition method, Recognising and measuring the difference between the assets acquired and liabilities assumed and the consideration transferred, Measurement period, Determining what is part of a transfer of functions, Subsequent measurement and accounting, Disclosure, Transitional provisions as well as the Effective date of the standard.

The effective date of the standard is for years beginning on or after 01 April 2015.

The municipality does not envisage the adoption of the standard until such time as it becomes applicable to the municipality's operations.

The municipality is unable to reliably estimate the impact of the amendment on the annual financial statements.

**GRAP 20: Related parties**

The objective of this standard is to ensure that a reporting entity’s annual financial statements contain the disclosures necessary to draw attention to the possibility that its financial position and surplus or deficit may have been affected by the existence of related parties and by transactions and outstanding balances with such parties.

An entity that prepares and presents financial statements under the accrual basis of accounting (in this standard referred to as the reporting entity) shall apply this standard in:

- identifying related party relationships and transactions;
- identifying outstanding balances, including commitments, between an entity and its related parties;
- identifying the circumstances in which disclosure of the items in (a) and (b) is required; and
- determining the disclosures to be made about those items.

# Notes to the Annual Financial Statements

**39. New standards and interpretations (continued)**

This standard requires disclosure of related party relationships, transactions and outstanding balances, including commitments, in the consolidated and separate financial statements of the reporting entity in accordance with the Standard of GRAP on Consolidated and Separate Financial Statements. This standard also applies to individual annual financial statements.

Disclosure of related party transactions, outstanding balances, including commitments, and relationships with related parties may affect users' assessments of the financial position and performance of the reporting entity and its ability to deliver agreed services, including assessments of the risks and opportunities facing the entity. This disclosure also ensures that the reporting entity is transparent about its dealings with related parties.

The standard states that a related party is a person or an entity with the ability to control or jointly control the other party, or exercise significant influence over the other party, or vice versa, or an entity that is subject to common control, or joint control. As a minimum, the following are regarded as related parties of the reporting entity:

- A person or a close member of that person's family is related to the reporting entity if that person:
  - has control or joint control over the reporting entity;
  - has significant influence over the reporting entity;
  - is a member of the management of the entity or its controlling entity.
- An entity is related to the reporting entity if any of the following conditions apply:
  - the entity is a member of the same economic entity (which means that each controlling entity, controlled entity and fellow controlled entity is related to the others);
  - one entity is an associate or joint venture of the other entity (or an associate or joint venture of a member of an economic entity of which the other entity is a member);
  - both entities are joint ventures of the same third party;
  - one entity is a joint venture of a third entity and the other entity is an associate of the third entity;
  - the entity is a post-employment benefit plan for the benefit of employees of either the entity or an entity related to the entity. If the reporting entity is itself such a plan, the sponsoring employers are related to the entity;
  - the entity is controlled or jointly controlled by a person identified in (a); and
  - a person identified in (a)(i) has significant influence over that entity or is a member of the management of that entity (or its controlling entity).

The standard furthermore states that related party transaction is a transfer of resources, services or obligations between the reporting entity and a related party, regardless of whether a price is charged.

The standard elaborates on the definitions and identification of:

- Close member of the family of a person;
- Management;
- Related parties;
- Remuneration; and
- Significant influence

The standard sets out the requirements, inter alia, for the disclosure of:

- Control;
- Related party transactions; and
- Remuneration of management

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

**GRAP32: Service Concession Arrangements: Grantor**

The objective of this Standard is: to prescribe the accounting for service concession arrangements by the grantor, a public sector entity.

It furthermore covers: Definitions, recognition and measurement of a service concession asset, recognition and measurement of liabilities, other liabilities, contingent liabilities, and contingent assets, other revenues, presentation and disclosure, transitional provisions, as well as the effective date.

# Notes to the Annual Financial Statements

**39. New standards and interpretations (continued)**

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

**GRAP108: Statutory Receivables**

The objective of this Standard is: to prescribe accounting requirements for the recognition, measurement, presentation and disclosure of statutory receivables.

It furthermore covers: Definitions, recognition, derecognition, measurement, presentation and disclosure, transitional provisions, as well as the effective date.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

**IGRAP17: Service Concession Arrangements where a Grantor Controls a Significant Residual Interest in an Asset**

This Interpretation of the Standards of GRAP provides guidance to the grantor where it has entered into a service concession arrangement, but only controls, through ownership, beneficial entitlement or otherwise, a significant residual interest in a service concession asset at the end of the arrangement, where the arrangement does not constitute a lease. This Interpretation of the Standards of GRAP shall not be applied by analogy to other types of transactions or arrangements.

A service concession arrangement is a contractual arrangement between a grantor and an operator in which the operator uses the service concession asset to provide a mandated function on behalf of the grantor for a specified period of time. The operator is compensated for its services over the period of the service concession arrangement, either through payments, or through receiving a right to earn revenue from third party users of the service concession asset, or the operator is given access to another revenue-generating asset of the grantor for its use.

Before the grantor can recognise a service concession asset in accordance with the Standard of GRAP on Service Concession Arrangements: Grantor, both the criteria as noted in paragraph .01 of this Interpretation of the Standards of GRAP need to be met. In some service concession arrangements, the grantor only controls the residual interest in the service concession asset at the end of the arrangement, and can therefore not recognise the service concession asset in terms of the Standard of GRAP on Service Concession Arrangements: Grantor.

A consensus is reached, in this Interpretation of the Standards of GRAP, on the recognition of the performance obligation and the right to receive a significant interest in a service concession asset.

The effective date of the standard is not yet set by the Minister of Finance.

The municipality expects to adopt the standard for the first time when the Minister set the effective date for the standard.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

**DIRECTIVE 11: Changes in measurement bases following the initial adoption of Standards of GRAP**

The objective of this Directive is to permit an entity to change its measurement bases following the initial adoption of Standards of GRAP. The change is based on the principles in the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors. This Directive should therefore be read in conjunction with the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

# Notes to the Annual Financial Statements

### 39. New standards and interpretations (continued)

In applying paragraph 13(b) of the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors, this Directive allows an entity, that has initially adopted the fair value model for investment property or the revaluation model for property, plant and equipment, intangible assets or heritage assets, to change its accounting policy on a once-off basis to the cost model when the entity elects to change its accounting policy following the initial adoption of these Standards of GRAP. The once-off change will be allowed when the entity made an inappropriate accounting policy choice on the initial adoption of the Standards of GRAP.

Subsequent to the application of this Directive, an entity will be allowed to change its accounting policy in future periods subject to it meeting the requirements in the Standard of GRAP on Accounting Policies, Changes in Accounting Estimates and Errors.

The effective date of the standard is for years beginning on or after 01 April 2016.

The municipality expects to adopt the standard for the first time in the 2017 annual financial statements.

It is unlikely that the standard will have a material impact on the municipality's annual financial statements.

# Notes to the Annual Financial Statements

| Figures in Rand | 2015 | 2014 |
|---|---|---|

### 40. Housing development fund

| | | |
|---|---|---|
| Housing development fund | 3 206 348 | 2 277 324 |

**The housing development fund is represented by the following assets**

| | | |
|---|---|---|
| Bank and cash | 3 206 348 | 2 277 324 |

### 41. Financial instruments disclosure

**Categories of financial instruments**

**2015**

**Financial assets**

| | At amortised cost | Total |
|---|---|---|
| Receivables from non-exchange transactions | 930 067 | 930 067 |
| Receivables from exchange transactions | 1 168 668 | 1 168 668 |
| Bank , cash and cash equivalents: Cash and bank | 3 002 963 | 3 002 963 |
| Bank , cash and cash equivalents : Call investments | 53 960 720 | 53 960 720 |
| Other bank, cash and cash equivalents | 36 526 | 36 526 |
| | **59 098 944** | **59 098 944** |

**Financial liabilities**

| | At amortised cost | Total |
|---|---|---|
| Short -term portion of finance lease | 66 504 | 66 504 |
| Trade payables | 14 674 799 | 14 674 799 |
| Long-term portion of finance lease | 420 462 | 420 462 |
| | **15 161 765** | **15 161 765** |

**2014**

**Financial assets**

| | At amortised cost | Total |
|---|---|---|
| Receivables from non-exchange transactions | 598 200 | 598 200 |
| Receivables from exchange transactions | 1 755 106 | 1 755 106 |
| Bank ,cash and cash equivalents: Cash and bank | 652 553 | 652 553 |
| Bank , cash and cash equivalents: Call investments | 49 861 182 | 49 861 182 |
| Other bank , cash and cash equivalents | 36 526 | 36 526 |
| | **52 903 567** | **52 903 567** |

**Financial liabilities**

| | At amortised cost | Total |
|---|---|---|
| Short -term portion of finance lease | 52 152 | 52 152 |
| Trade payables | 15 025 078 | 15 025 078 |
| Long-term portion of finance lease | 237 956 | 237 956 |
| | **15 315 186** | **15 315 186** |

| Figures in Rand | 2015 | 2014 |
|---|---|---|

### 42. Traffic fines

| | | |
|---|---|---|
| Traffic fines | 611 000 | 708 878 |

### 43. Debt impairment

| | | |
|---|---|---|
| Debt impairment | 1 345 922 | 1 983 333 |

### 44. Impairment of assets

| | | |
|---|---|---|
| **Impairments** | | |
| **Other financial assets ( Traffic fines)**<br>The best estimate of impairment losses for traffic fines is made based on poor economic conditions and general history of traffic fines not being paid. | 360 470 | 425 754 |
| **Property plant and equipment**<br>Impairment losses on property plant and equipment exists predominantly due to technological obsolescence of information technology equipment . The remainder of the impaired items of property plant and equipment have been physically damaged , stolen or have become redundant and idle. | 58 330 | - |
| **Total impairment losses recognised** | **418 800** | **425 754** |

### 45. Repairs and maintenance

| | | |
|---|---|---|
| Repairs and maintenance | 4 210 116 | 4 176 105 |

### 46. Comparative figures

During the year the Department of Housing issued a Directive to the municipality that all the Housing grants under unspent conditional grants be transferred to Housing Development Fund and a separate Housing Operation Account be opened for these grants.

The results of the reclassification resulted in unspent conditional grants and Housing Development Fund being affected and the details of the reclassification is as follows. No effect on the accumulated surplus ,

| | Audited 30 June 2014 | Reclassification | Restated 30 June 2014 |
|---|---|---|---|
| Unspent conditional grants | 2 506 887 | (2 277 324) | 229 563 |
| Housing development fund | - | 2 277 324 | 2 277 324 |
| | - | - | - |

### 47. Going concern assumption

In terms of the section 24 and 25 of the Local Government : Municipal Demarcation act , act 27 of 1998 and section 2 of the Municipal Structures act Management , the Municipal Demarcation Board has determined that after the 2016 Local government election , the Ingwe and kwaSani municipality will amalgamate into one municipality (DEM 4150) .

The management is of the opinion that the merger with kwaSani municipality will not affect the ability of the municiplaity to continue as a going concern for the next 12 months supported by the following assumptions:

(i) The Council adopted the 2015/16 to 2017/18 Budget . This three -year Medium Term Revenue and Expenditure Framework (MTREF) to support the ongoing delivery of municipal services to residents reflected that the budget was cash-backed over the three-year period.

### 47. Going concern assumption (continued)

(ii) The municipality's Budget is subjected to a very rigorous independent assessment process to assess its cash-backing status before it is ultimately approved by Council.

(iii) Strict daily cash management processes are embedded in the municiplity's operations to manage and monitor all actual cash inflows and cash outflows in terms of the cash-flow forecast supporting the Budget. The cash management processes is complemented by monthly and quarterly reporting , highlighting the actual cash position , including the associated risks and remedial actions to be instituted..

(iv) As the municipality has the power to levy rates , tariffs and charges , this will result in an ongoing inflow of revenue to support the ongoing delivery of municipal services . Certain key financial ratios , such as liqudity , cost coverate , debtors collection rates and creditors payment terms are closely monitored and the necessary corrective actions instituted .

### 48. In-kind donations and assistance

No in -kind donations and assistance was received during the year under review.

### 49. Budget differences

Explanation of variances of above 10% between the budget and actual figures .

Service charges - (136.64% ) More service charges especially refuse collected than anticipated.

Rental of facilities - (19.48%) Due to poor economic condtitions

Other income - (99.42% ) Due to R2.7 million received which was not intially anticipated

Property rates -(10.24%) Due to poor economic conditions and no significant changes in the valuation roll .

Government grants -( 50.24% ) Due to Provincial government grants received not budgeted for during the year

Depreciation ( 69.83%) Due to increase in additions and completon of work in progress projects.

Debt impairment (405% ) Due increase in provision and debt written off.

### 50. Events after the reporting date

No material fact or circumstance has occurred between the accounting date and the date of this report.